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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1997

OR

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

Commission file number 1-10962

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

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

2285 Rutherford Road, Carlsbad, CA 92008-8815
(760) 931-1771
(Address, including zip code and telephone number, including area code, of principal executive offices)

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

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of October 31, 1997 was 74,730,267.

CALLAWAY GOLF COMPANY

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	September 30, 1997 (Unaudited)	December 31, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 41,493	$ 108,457
Accounts receivable, net	161,872	74,477
Inventories, net	67,369	98,333
Deferred taxes	26,483	25,948
Other current assets	11,084	4,298
Total current assets	308,301	311,513
Property, plant and equipment, net	126,545	91,346
Other assets	136,276	25,569
	$ 571,122	$ 428,428
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 20,473	$ 14,996
Accrued employee compensation and benefits	38,114	16,195
Accrued warranty expense	28,049	27,303
Income taxes payable	2,701	2,558
Total current liabilities	89,337	61,052
Long-term liabilities	6,762	5,109
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at September 30, 1997 and December 31, 1996, respectively		
Common Stock, $.01 par value, 240,000,000 shares authorized, 74,597,967 and 72,855,222 issued and outstanding at September 30, 1997 and December 31, 1996, respectively	746	729
Paid-in capital	364,424	278,669
Unearned compensation	(3,862)	(3,105)
Retained earnings	298,553	238,349
Less: Grantor Stock Trust (5,300,000 shares) at market	(184,838)	(152,375)
Total shareholders' equity	475,023	362,267
	$ 571,122	$ 428,428

See accompanying notes to consolidated condensed financial statements.

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

	Three months ended				Nine months ended			
	September 30, 1997		September 30, 1996		September 30, 1997		September 30, 1996	
Net sales	$257,435	100%	$194,545	100%	$679,540	100%	$539,685	100%
Cost of goods sold	118,666	46%	88,474	45%	319,026	47%	253,899	47%
Gross profit	138,769	54%	106,071	55%	360,514	53%	285,786	53%
Selling expenses	32,643	13%	21,728	11%	95,238	14%	61,727	11%
General and administrative expenses	24,716	10%	19,326	10%	57,045	8%	61,440	11%
Research and development costs	10,640	4%	5,245	3%	24,682	4%	11,653	2%
Litigation settlement (Note 8)	12,000	5%			12,000	2%		
Income from operations	58,770	23%	59,772	31%	171,549	25%	150,966	28%
Other income, net	1,146		1,619		3,561		3,952	
Income before income taxes	59,916	23%	61,391	32%	175,110	26%	154,918	29%
Provision for income taxes	22,867		22,973		66,773		58,108	
Net income	$ 37,049	14%	$ 38,418	20%	$108,337	16%	$ 96,810	18%
Earnings per common share	$ .52		$ .54		$ 1.52		$ 1.38	
Common equivalent shares	71,648		71,065		71,382		70,390	
Dividends paid per share	$ .07		$ .06		$ .21		$ .18	

See accompanying notes to consolidated condensed financial statements.

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

	Nine months ended	
	September 30, 1997	September 30, 1996
Cash flows from operating activities:		
Net income	$ 108,337	$ 96,810
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,797	9,377
Non-cash compensation	7,515	3,576
Increase (decrease) in cash resulting from changes in:		
Accounts receivable, net	(73,431)	(7,485)
Inventories, net	35,989	(28,794)
Deferred taxes	(2,379)	(4,665)
Other assets	(6,351)	(14,270)
Accounts payable and accrued expenses	1,511	(1,524)
Accrued employee compensation and benefits	24,259	23,162
Accrued warranty expense	746	3,520
Income taxes payable	240	11,017
Other liabilities	1,653	937
Net cash provided by operating activities	110,886	91,661
Cash flows from investing activities:		
Acquisition of a business	(129,256)	
Capital expenditures	(46,292)	(21,156)
Net cash used in investing activities	(175,548)	(21,156)
Cash flows from financing activities:		
Issuance of Common Stock	19,103	11,101
Tax benefit from exercise of stock options	25,946	11,951
Dividends paid	(14,264)	(12,303)
Retirement of Common Stock	(33,010)	
Net cash (used in) provided by financing activities	(2,225)	10,749
Effect of exchange rate changes on cash	(77)	(80)
Net (decrease) increase in cash and cash equivalents	(66,964)	81,174
Cash and cash equivalents at beginning of period	108,457	59,157
Cash and cash equivalents at end of period	$ 41,493	$140,331

See accompanying notes to consolidated condensed financial statements.

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

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Unearned Compensation	Retained Earnings	GST	Total
Balance, December 31, 1996	72,855	$729	$278,669	$(3,105)	$238,349	$(152,375)	$362,267
Exercise of stock options	2,502	25	19,078				19,103
Tax benefit from exercise of stock options			25,946				25,946
Compensatory stock options			2,300	(757)			1,543
Employee stock purchase plan	372	4	5,968				5,972
Stock retirement	(1,131)	(12)			(32,998)		(33,010)
Cash dividends					(15,377)		(15,377)
Dividends on shares held by GST					1,113		1,113
Equity adjustment from foreign currency translation					(871)		(871)
Adjustment of GST shares to market value			32,463			(32,463)	
Net income					108,337		108,337
Balance, September 30, 1997	74,598	$746	$364,424	$(3,862)	$298,553	$(184,838)	$475,023

See accompanying notes to consolidated condensed financial statements.

1. Basis of presentation

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

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed for the year ended December 31, 1996 and the Company's Current Report on Form 8-K dated August 8, 1997, as amended. Interim operating results are not necessarily indicative of operating results for the full year.

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

2. Inventories

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

	September 30, 1997	December 31, 1996
	(Unaudited)	
Inventories, net:		
Raw materials	$36,244	$ 50,012
Work-in-process	2,270	1,651
Finished goods	34,502	51,954
	73,016	103,617
Less reserve for obsolescence	(5,647)	(5,284)
Net inventories	$67,369	$ 98,333

3. Foreign currency exchange contracts

During the nine months ended September 30, 1997, the Company entered into forward foreign currency exchange rate contracts to hedge payments due on intercompany transactions from a wholly-owned foreign subsidiary. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. The Company does not engage in foreign currency speculation. These foreign exchange contracts do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the intercompany transactions being hedged, and the Company does not engage in hedging contracts which exceed the amount of the intercompany transactions. At September 30, 1997, the Company had approximately $5.2 million of foreign exchange contracts outstanding. The contracts mature between October and December 1997. Gains and losses on these contracts are recorded in net income. The net realized and unrealized gains from foreign exchange contracts for the nine months ended September 30, 1997 totaled approximately $357,000.

4. Cash and cash equivalents

At September 30, 1997, the Company held investments in U.S. Treasury bills with maturities of three months or less in the aggregate amount of $34.9 million. Management determines the appropriate classification of its U.S. Government and other debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Company has included these securities, net of amortization, in cash and cash equivalents and has designated them as "held-to-maturity."

The acquisition of substantially all of the assets and certain liabilities of Odyssey Sports, Inc. ("Odyssey") (Note 6) necessitated the sale of certain held-to-maturity debt securities from two weeks to two months prior to their respective stated maturity dates and as a result are considered to be sold at maturity under the provisions of Statement of Financial Accounting Standard (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." These debt securities were purchased at a discount and had an amortized cost of $115.4 million when sold. No realized or unrealized gain or loss resulted from the sale of these securities.

5. Earnings per share

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

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

	Three months ended		Nine months ended	
Pro forma:	September 30, 1997	September 30, 1996	September 30, 1997	September 30, 1996
Basic	$.54	$.57	$1.59	$1.45
Diluted	$.52	$.54	$1.52	$1.38

6. Acquisition

On August 8, 1997, Callaway Acquisition, a wholly-owned subsidiary of the Company, consummated its acquisition of substantially all of the assets and certain liabilities of Odyssey, subject to certain adjustments as of the time of closing. Odyssey manufactured and marketed the Odyssey(R) line of putters and wedges with Stronomic(R) face inserts.

The cost to acquire substantially all of the assets and certain liabilities of Odyssey, including professional fees directly related to the acquisition, was approximately $129.3 million and has been accounted for using the purchase method of accounting. The allocations of the acquisition cost amounts to assets acquired and liabilities assumed are presented in the table that follows. The amounts therein are estimates and are subject to revision once appraisals and other studies of fair value are completed. Amounts allocated to trade name, trademark, trade dress and goodwill are being amortized over 40 years. The amount allocated to the process patent is being amortized over 16 years and the covenant not to compete is being amortized over 3 years.

Assets acquired/liabilities assumed	August 8, 1997
	(in thousands)
Accounts receivable	$ 14,643
Inventories	6,000
Total current assets	20,643
Property and equipment	1,360
Other assets	410
Trade name	69,629
Trademark and trade dress	29,841
Goodwill	2,036
Process patent	6,763
Covenant not to compete	1,641
Total assets acquired	132,323
Accounts payable and accrued liabilities	(2,602)
Accrued compensation and related benefits	(465)
Total liabilities assumed	(3,067)
Net assets acquired	$129,256

The following unaudited pro forma net sales, net income and earnings per share data for the nine months ended September 30, 1997 and 1996 are based on the respective historical financial statements of the Company and Odyssey. The pro forma data presented for the nine months ended September 30, 1997 combines the results of operations of the Company for the nine months ended September 30, 1997 with the results of operations of Odyssey for the nine months ended June 30, 1997 and assumes that the acquisition of substantially all of the assets and certain liabilities of Odyssey had occurred on January 1, 1997. The pro forma data presented for the nine months ended September 30, 1996 combines the results of operations of the Company for the nine months ended September 30, 1996 with the results of operations of Odyssey for the nine months ended June 30, 1996 and assumes that the acquisition of substantially all the assets and certain liabilities of Odyssey had occurred on January 1, 1996.

The pro forma financial data presented are not necessarily indicative of the Company's results of operations that might have occurred had the transaction been completed at the beginning of the periods specified, and do not purport to represent what the Company's consolidated results of operations might be for any future period.

	Nine months ended	
	September 30, 1997	September 30, 1996
Net sales (in thousands)	$723,586	$559,681
Net income (in thousands)	$110,169	$ 93,791
Earnings per common share	$ 1.54	$ 1.33

7. Commitments and contingencies

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

The Company has committed to purchase titanium golf clubheads costing approximately $53.2 million from one of its vendors. These clubheads are to be shipped to the Company in accord with a production schedule that extends into 1999.

During June 1997, the Company entered into an agreement with Saint Andrews Golf Corporation to form All-American Golf LLC ("All-American") whereby the Company is a 20% equity owner in All-American, which operates a nine-hole golf course, performance center, training facility and driving range (the "Center") located in Las Vegas, Nevada. As of September 30, 1997, the Company had made capital contributions to All-American of $750,000. Additionally, the Company has agreed to loan All-American up to $5.3 million, pursuant to a secured promissory note, for purposes of construction and various other start-up costs. The note, which is secured by certain assets of All-American, bears interest of 10% per annum and is payable in monthly installments. Commencing on the fifth anniversary of the Center's opening, the principal shall be repaid in 60 equal monthly installments. As of September 30, 1997 the Company has advanced All-American approximately $3.9 million under the secured promissory note. The balance of the note will be advanced upon the completion of the final milestone.

The Company and its subsidiaries, incident to their business activities, from time to time are parties to a number of legal proceedings in various stages of development. The Company believes that the majority of these proceedings involve matters as to which liability, if any, will be adequately covered by insurance. Management believes that the probable result of these matters individually and in the aggregate will not have a material adverse effect upon the Company's financial position, results of operations or cash flows.

8. Litigation settlement

On September 23, 1997, the Company settled a lawsuit brought against it and certain officers of the Company by a former officer of the Company. Pursuant to the settlement, the Company agreed to a six year employment agreement with the officer, the payment of $12.0 million and the issuance of 600,000 stock options at the market price on the date of grant. The Company is seeking coverage for the costs of defending and settling this lawsuit with certain of its insurance carriers and an insurance agent; however, no assurance can be given that any of the costs will be recovered.

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

Statements used in this discussion that relate to future plans, events, financial results or performance are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company which describe certain factors which affect the Company's business, including the disclosures made under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Callaway Golf Company" below, as well as the Company's other periodic reports on Forms 10-K and 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission.

Certain Factors Affecting Callaway Golf Company

Growth in sales; seasonality

The Company believes that the growth rate in the world-wide golf equipment market has been modest for the past several years, and this trend is likely to continue. In addition, recent turmoil in the Southeast Asian financial markets and its potential effect on Korea, Japan and the rest of Asia, combined with any economic disruptions resulting from such turmoil, may have an adverse effect on the Company's sales and results of operations. Although demand for the Company's products has been generally strong during the quarter ended September 30, 1997, no assurances can be given that the demand for the Company's

existing products or the introduction of new products will continue to permit the Company to experience its historical growth or maintain its historical profit margin. Additionally, given the Company's current size and market position, it is possible that further market penetration will prove more difficult.

In the golf equipment industry, sales to retailers are generally seasonal due to lower demand in the retail market in the cold weather months covered by the fourth and first quarters. The Company's business generally follows this seasonal trend and the Company expects this to continue.

Competition

The market in which the Company does business is highly competitive, and is served by a number of well-established and well-financed companies with recognized brand names. New product introductions by competitors continue to generate increased market competition. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that successful marketing activities by competitors will not negatively impact the Company's future sales.

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

New product introduction

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

Product breakage

Since the Company does not rely upon traditional designs in the development of its golf clubs, its products may be more likely to develop unanticipated problems than those of many of its competitors which use traditional designs. For example, clubs have been returned with cracked clubheads, broken graphite shafts and loose medallions. While any breakage or warranty problems are deemed significant to the Company, the incidence of clubs returned as a result of cracked clubheads, broken graphite shafts, loose medallions and other product problems to date has not been material in relation to the volume of Callaway Golf clubs which have been sold. The Company monitors closely the level and nature of any product breakage and, where appropriate, seeks to incorporate design and

production changes to assure its customers of the highest quality available in the market. The Company's recently introduced Biggest Big Bertha(TM) Drivers, because of their large clubhead size and extra long graphite shafts, have experienced breakage at a rate higher than generally experienced with the Company's other metal woods. Significant increases in the incidence of breakage or other product problems may adversely affect the Company's sales and image with golfers.

Dependence on certain vendors

The Company is dependent on a limited number of suppliers for its clubheads and shafts. In addition, some of the Company's products require specifically developed techniques and processes which make it difficult to identify and utilize alternative suppliers quickly. Consequently, if any significant delay or disruption in the supply of these component parts occurs, it may have a material adverse effect on the Company's business. In the event of a significant delay or disruption, the Company believes that suitable clubheads and shafts could be obtained from other manufacturers, although the transition to other suppliers, particularly with respect to the Great Big Bertha(R) Tungsten.Titanium(TM) Irons, could result in significant production delays and an adverse impact on results of operations during the transition.

The Company uses United Parcel Service ("UPS") for substantially all ground shipments of products to its domestic customers. While the Company is seeking to arrange alternative methods of ground shipping to reduce its reliance on UPS, there can be no assurance that the Company will be successful in doing so.

Intellectual property and proprietary rights

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

An increasing number of the Company's competitors have, like the Company itself, sought to obtain patent, trademark or other protection of their proprietary rights and designs. From time to time others have or may contact the Company to claim that they have proprietary rights which have been infringed by the Company and/or its products. The Company evaluates any such claims and, where appropriate, has obtained or sought to obtain licenses or other business arrangements. To date, there have been no interruptions in the Company's business as the result of any claims of infringement. No assurance can be given, however, that the Company will not be adversely affected in the future by the assertion of intellectual property rights belonging to others. This effect could include alteration of existing products, withdrawal of existing products and delayed introduction of new products.

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

"Gray market" distribution

While the Company seeks to control the distribution of its products to the extent permitted by law, it is still the case that quantities of the Company's products find their way to unapproved outlets or distribution channels. This "gray market" in the Company's products can undermine approved retailers and distributors who promote and support the Company's products, and can injure the Company's image in the minds of its customers and consumers. On the

other hand, stopping such commerce could result in an increase in sales returns over historical levels, and/or a potential decrease in sales to those customers who are selling Callaway Golf products to unauthorized distributors. While the Company has taken some lawful steps to limit commerce in its products in the "gray market" in both domestic and international markets, it has not been successful in stopping such commerce to date.

Professional endorsements

The Company also establishes relationships with professional golfers in order to promote the Callaway Golf brand among both professional and amateur golfers. The Company has entered into endorsement arrangements with members of the Senior Professional Golf Association's Tour, the Professional Golf Association's Tour, the Ladies Professional Golf Association's Tour, the European Professional Golf Association's Tour and the Nike Tour. While most professional golfers fulfill their contractual obligations, some have been known to stop using a sponsor's products despite contractual commitments. If one or more of Callaway Golf's pro endorsers were to stop using Callaway Golf's products contrary to their endorsement agreements, the Company's business could be adversely affected in a material way by the negative publicity.

New business ventures

Beginning in 1995, the Company began to evaluate and pursue new business ventures which it believes constitute potential growth opportunities in and outside of the golf equipment industry. The Company has invested, and expects to continue to invest, significant capital resources in these new ventures in the form of research and development, capital expenditures and the hiring of additional personnel. There can be no assurance that new ventures will lead to new product offerings or otherwise increase the revenues and profits of the Company. Like all new businesses, these ventures require significant management time, involve a high degree of risk and will present many new challenges for the Company. There can be no assurance that these activities will be successful, or that the Company will realize appropriate returns on its investments in these new ventures.

International distribution

The Company's management believes that controlling the distribution of its products throughout the world will be an element in the future growth and success of the Company. Executing a business strategy to achieve this has and will result in additional investments in inventory, accounts receivable, corporate infrastructure and facilities. It could also result in disruptions in the distribution of the Company's products in some areas. There can be no assurance that the acquisition of some or all of the Company's foreign distributors will be successful, and it is possible that an attempt to do so will adversely affect the Company's business.

The Company, through a distribution agreement, appointed Sumitomo Rubber Industries, Ltd. ("Sumitomo") as the sole distributor of the Company's golf clubs in Japan. The current distribution agreement began in February 1993 and runs through December 31, 1999. The Company has been engaged in discussions regarding a possible restructuring of the Company's distribution arrangements with Sumitomo, which is intended to streamline the distribution of the Company's products in Japan. There can be no assurance, however, that such a restructuring will occur, or if consummated, that the proposed restructuring will achieve its intended goals. It is possible that the attempt to restructure the Company's distribution arrangements in Japan, or the failure to succeed in that attempt, will adversely affect the Company's business in Japan.

Golf ball development

In June 1996, the Company formed Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, for the purpose of designing, manufacturing and selling golf balls. The Company has previously licensed the manufacture and distribution of a golf ball product in Japan and Korea. The Company also distributed a golf ball under the trademark "Bobby Jones." These golf ball ventures were not commercially successful.

The Company has determined that Callaway Golf Ball Company will enter the golf ball business by developing a new product in a new plant to be constructed just for this purpose. The successful implementation of the

Company's strategy could be adversely affected by various risks, including, among others, delays in product development, construction delays and unanticipated costs. There can be no assurance if and when a successful golf ball product will be developed or that the Company's investments will ultimately be realized.

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

Acquisition of Odyssey

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

Odyssey(R) products previously were manufactured and shipped on behalf of Odyssey by Tommy Armour Golf Company. In October 1997, Odyssey Golf began manufacturing and shipping Odyssey(R) products at its own plant in Carlsbad, California. There can be no assurance that the Company's ability to deliver Odyssey(R) products to the marketplace in sufficient quantities and quality will not be adversely affected by this manufacturing transition. Odyssey Golf is in the process of restructuring its international distribution in certain countries. There can be no assurance that this restructuring will not adversely affect Odyssey Golf's international business.

Year 2000 Compliance

Historically, certain computer programs have been written using two digits rather than four to define the applicable year, which could result in the computer recognizing a date using "00" as the year 1900 rather than the year 2000. This, in turn, could result in major system failures or miscalculations, and is generally referred to as the "Year 2000" problem.

In October 1997, the Company began implementing a new computer system which runs substantially all of the Company's principal data processing and financial reporting software applications. The application software used on this new system is Year 2000 compliant. The information systems of certain of the Company's subsidiaries, however, have not been converted to the new system, but the Company expects that such conversion will be complete well in advance of the Year 2000. Pursuant to the Company's Year 2000 Plan, the Company is currently evaluating its computerized production equipment to assure that the transition to the Year 2000 will not disrupt the Company's manufacturing capabilities. The Company also intends to evaluate the systems of its key component suppliers, distributors and other vendors. Presently, the Company does not believe that Year 2000 compliance will result in material investments by the Company, nor does the Company anticipate that the Year 2000 problem will have material adverse effects on the business operations or financial performance of the Company. There can be no assurance, however, that the Year 2000 problem will not adversely affect the Company and its business.

Results of Operations

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

Net sales increased 32% to $257.4 million for the three months ended September 30, 1997 compared to $194.5 million for the comparable period in the prior year. The increase was primarily attributable to sales generated by Biggest Big Bertha(TM) Titanium Drivers and Great Big Bertha(R) Tungsten.Titanium(TM) Irons as well as sales of the Odyssey(R) line of putters and wedges. Also contributing to the increase were increased sales of Big Bertha Gold(TM) Irons and Big Bertha(R) Tour Series Wedges. The increase was partially offset by a decrease in sales of Great Big Bertha(R) Titanium Drivers, Big Bertha(R) War Bird(R) Metal Woods and Big Bertha(R) Irons.

For the three months ended September 30, 1997, gross profit increased 31% to $138.8 million from $106.1 million for the comparable period in the prior year. As a percentage of net sales, gross profit decreased to 54% from 55%, primarily as a result of slightly higher cost of sales associated with the product mix and region sales during the quarter ended September 30, 1997 as compared to that sold in the comparable quarter of the prior year.

Selling expenses increased to $32.6 million in the third quarter of 1997 compared to $21.7 million in the third quarter of 1996. As a percentage of net sales, selling expenses increased to 13% from 11% during the third quarter of 1997 over the third quarter of 1996. The $10.9 million increase was primarily the result of increased pro tour, promotional and compensation expenses.

General and administrative expenses increased to $24.7 million for the three months ended September 30, 1997 from $19.3 million for the comparable period in the prior year. As a percentage of net sales, general and administrative expenses in the third quarter of 1997 remained constant at 10%. The $5.4 million increase was primarily attributable to increases in legal fees, compensation expenses and building construction costs.

Research and development expenses increased to $10.6 million in the third quarter of 1997 compared to $5.2 million in the comparable period of the prior year. As a percentage of net sales, research and development expenses in the third quarter of 1997 increased to 4% from 3% in the third quarter of 1996. The $5.4 million increase was primarily the result of increased product engineering costs, the Company's interactive golf efforts and costs associated with golf ball development.

Nine-month periods ended September 30, 1997 and 1996:

For the nine months ended September 30, 1997, net sales increased 26% to $679.5 million compared to $539.7 million for the comparable period of the prior year. The increase was primarily attributable to sales generated by the introduction of Biggest Big Bertha(TM) Titanium Drivers and Great Big Bertha(R) Tungsten.Titanium(TM) Irons as well as sales of the Odyssey(R) line of putters and wedges. Also contributing to the increase were increased sales of Big Bertha Gold(TM) Irons and Big Bertha(R) Tour Series Wedges. This increase was partially offset by a decrease in sales of Great Big Bertha(R) Titanium Drivers, Big Bertha(R) War Bird(R) Metal Woods and Big Bertha(R) Irons.

For the nine months ended September 30, 1997, gross profit increased 26% to $360.5 million from $285.8 million for the comparable period in the prior year, while gross profit, as a percentage of net sales, remained constant at 53%.

Selling expenses increased to $95.2 million for the nine months ended September 30, 1997 from $61.7 million for the comparable period in the prior year. As a percentage of net sales, selling expenses in the first nine months of 1997 increased to 14% from 11% for the comparable period in 1996. The $33.5 million increase was primarily the result of increased compensation, pro tour, promotional and advertising expenses.

General and administrative expenses decreased to $57.0 million for the nine months ended September 30, 1997 from $61.4 million for the comparable period in the prior year. As a percentage of net sales, general and

administrative expenses in the first nine months of 1997 decreased to 8% from 11% in the first nine months of 1996. The $4.4 million decrease resulted primarily from a decrease in compensation expenses, charitable contributions, consulting fees and computer support expenses. These decreases were partially offset by increases in legal fees and costs associated with the Company's business development initiatives.

Research and development expenses increased to $24.7 million for the nine months ended September 30, 1997 from $11.7 million for the comparable period in the prior year. As a percentage of net sales, research and development expenses for the first nine months of 1997 increased to 4% from 2% in the first nine months of 1996. The $13.0 million increase was primarily attributable to increased product engineering and design costs, the Company's interactive golf efforts and costs associated with golf ball development.

Liquidity and Capital Resources

At September 30, 1997, cash and cash equivalents decreased to $41.5 million from $108.5 million at December 31, 1996 primarily due to investing activities, which included the acquisition of substantially all of the assets and certain liabilities of Odyssey (Note 6), and increases in capital expenditures, which totaled $46.3 million and included building and building improvements, computer equipment and software, and research and development machinery and equipment. These increases were partially offset by cash provided by operating activities of $110.9 million.

The increase in cash flows from operations was primarily a result of net income of $108.3 million, depreciation and amortization of $12.8 million, a decrease in inventories of $36.0 million and an increase in accrued employee compensation and benefits of $24.3 million, partially offset by increases in accounts receivable of $73.4 million and other assets of $6.4 million.

The Company had available a $50.0 million line of credit at September 30, 1997. At this time, the Company anticipates that it will be able to maintain its current level of operations, including capital expenditures and planned operations for the foreseeable future, through cash flow generated from future operations and the existing line of credit.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

On May 30, 1996, a lawsuit was filed against the Company and two of its officers by a former officer of the Company, captioned Glenn Schmidt v. Callaway Golf Company, et al., case no. N71548, in the Superior Court for the State of California, County of San Diego (the "Schmidt Litigation"). On September 23, 1997, the Schmidt Litigation was dismissed pursuant to a settlement between Schmidt, the Company and the other named defendants. The Company paid Mr. Schmidt $12.0 million, obtained Mr. Schmidt's services for a six year term, and issued options to Mr. Schmidt to purchase 600,000 shares of the Company's Common Stock at the market price on the day of the option grant. After the Schmidt Litigation was filed, the Company tendered the claim to its insurers. Certain insurers denied coverage. On April 11, 1997, the Company initiated litigation against certain of its carriers and an insurance agent, captioned Callaway Golf v. National Union Fire Insurance Company of Pittsburgh, Federal Insurance Company, and MDM Associates, Inc., case no. 709645, in the Superior Court for the State of California, County of San Diego (the "Insurance Litigation"). In the Insurance Litigation the Company is seeking a judicial declaration that coverage is afforded for the Schmidt Litigation under the applicable insurance policies. The Company believes it is entitled to coverage by its insurers for all or some of the costs of defending and settling the claims asserted in the Schmidt Litigation.

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

Item 2. Changes in Securities:

None

Item 3. Defaults Upon Senior Securities:

None

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

None

Item 5. Other Information:

None

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

a. Exhibits:

10.1	Chief Executive Officer Employment Agreement by and between Callaway Golf Company and Donald H. Dye entered into as of January 1, 1997.
10.2	Asset Purchase Agreement dated July 20, 1997 by and among Callaway Golf Company, Odyssey Sports, Inc. and U.S. Industries, Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 8, 1997, as filed with the Securities and Exchange Commission on August 22, 1997 and incorporated herein by this reference).
10.3	Transitional Assembly Services Agreement dated as of August 8, 1997 by and between Callaway Acquisition and Tommy Armour Golf Company (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated August 8, 1997, as filed with the Securities and Exchange Commission on August 22, 1997 and incorporated herein by this reference).
10.4.1	Standard Industrial/Commercial Single-Tenant Lease dated September 20, 1996 by and between Techplex, L.P. and Putter Properties, Inc.
10.4.2	Assignment made as of August 8, 1997 by Putter Properties, Inc. to Callaway Acquisition.
10.4.3	Guaranty of Lease entered into as of August 8, 1997 by the Company in favor of Techplex, L.P.
10.5	Indemnification Agreement by and between the Company and Vernon E. Jordan, Jr., dated July 16, 1997.
11.1	Statement re: Computation of Earnings Per Share.
27.1	Financial Data Schedule.

b. Reports on Form 8-K:

The Company filed the following Current Reports on Form 8-K during the three months ended September 30, 1997:

(1) Current Report on Form 8-K dated July 20, 1997, regarding agreement to acquire substantially all of the assets of Odyssey Sports, Inc., reported under Item 5.

(2) Current Report on Form 8-K dated August 8, 1997, regarding the consummation of the acquisition of substantially all of the assets of Odyssey Sports, Inc., reported under Item 2.

(3) Amendment No. 1 to Current Report on Form 8-K/A dated August 8, 1997, regarding the consummation of the acquisition of substantially all of the assets of Odyssey Sports, Inc., reported under Items 2 and 7. The following financial statements were filed under Item 7 with that Report:

(a) Financial Statements of Business Acquired.

Audited financial statements as of September 30, 1996 and for the year then ended, as follows:

- Report of Independent Accountants;
- Balance Sheet as of September 30, 1996;

- Statement of Income for the year ended September 30, 1996;
- Statement of Changes in Invested Capital of Parent for the year ended September 30, 1996;
- Statement of Cash Flows for the year ended September 30, 1996; and
- Notes to financial statements.

Unaudited financial statements as of June 30, 1997 and for the nine months ended June 30, 1997 and 1996, as follows:

- Unaudited Balance Sheet as of June 30, 1997;
- Unaudited Statements of Income for the nine months ended June 30, 1997 and 1996; and
- Unaudited Statements of Cash Flows for the nine months ended June 30, 1997 and 1996.

(b) Pro Forma Financial Information.

- Unaudited Pro Forma Consolidated Condensed Balance Sheet as of June 30, 1997;
- Unaudited Pro Forma Consolidated Condensed Statements of Income for the six months ended June 30, 1997 and the year ended December 31, 1996; and
- Notes to Unaudited Pro Forma Consolidated Condensed financial statements.

(4) Current Report on Form 8-K dated September 12, 1997, regarding the Company's settlement of litigation with a former officer, Mr. Glenn Schmidt, on behalf of the Company and the other defendants, reported under Item 5.

SIGNATURES

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

CALLAWAY GOLF COMPANY

Date: November 13, 1997

/s/ DONALD H. DYE

Donald H. Dye
President and
Chief Executive Officer

/s/ DAVID A. RANE

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

EXHIBIT INDEX

Exhibit Number	Description
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11.1	Statement re: Computation of Earnings Per Share.
27.1	Financial Data Schedule.

*Previously filed with the Registrant's Current Report on Form 8-K dated August 8, 1997 as filed with the Securities and Exchange Commission on August 22, 1997.

Exhibit 10.1

CHIEF EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Chief Executive Officer Employment Agreement ("Agreement") is entered into as of January 1, 1997, by and between Callaway Golf Company, a California corporation (the "Company"), and Donald H. Dye ("Employee").

1. TERM. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the term commencing January 1, 1997 and terminating December 31, 2001 unless this Agreement is earlier terminated as hereinafter provided. Unless such employment is earlier terminated, upon the expiration of the term of this Agreement, Employee's status shall be one of at will employment.

2. SERVICES.

(a) Employee shall serve as President and Chief Executive Officer of the Company. Employee's duties shall be the usual and customary duties of the offices in which he serves. Employee shall report to the Board of Directors of the Company.

(b) 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.

3. SERVICES TO BE EXCLUSIVE. During the term hereof, Employee agrees to devote his 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. 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. Employee further agrees to execute such secrecy, non-disclosure, patent, trademark, copyright and other proprietary rights agreements, if any, as the Company may from time to time reasonably require. Nothing herein contained shall be deemed to preclude Employee from having outside personal investments and involvement with appropriate community activities, and from devoting a reasonable amount of time to such matters, provided that this shall in no manner interfere with or derogate from Employee's work for the Company.

4. COMPENSATION.

(a) The Company agrees to pay Employee during the term of this Agreement a base salary at the rate of $750,000.00 per year;

(b) The Company further agrees to pay Employee during the term of this Agreement an annual Bonus, consisting of a Qualified Bonus and a Non-Qualified Bonus. If Employee elects to defer all or any part of his annual Bonus (the "Deferred Bonus"), such Deferred Bonus shall be taken first from any Non-Qualified Bonus earned by Employee and then, to the extent necessary and only to such extent, from any Qualified Bonus earned by Employee. Notwithstanding whatever amounts Employee might defer, any annual Bonus amounts that are not deductible by the Company as a result of the application of Section 162(m) of the Internal Revenue Code shall be deferred pursuant to the Company's Executive Deferred Compensation Plan.

(c) The Qualified and Non-Qualified Bonuses shall be calculated as follows:

(i) The annual Qualified Bonus shall be determined pursuant to the applicable shareholder-approved nondiscretionary bonus plan for the year in which the bonus is earned (i.e., the Executive Non-Discretionary Bonus Plan for 1997 and the 1998 Executive Non-Discretionary Bonus Plan for subsequent contract years). Subject to any restrictions in the applicable Plan or otherwise imposed by law, the Company may elect to pay all, some or none of Employee's Bonus as Qualified Bonus, provided however that the total Qualified Bonus payable in any year shall not be greater than the maximum potential Non-Qualified Bonus (without taking into account any offset for payment of a Qualified Bonus), as defined in subsection 4(c)(ii) below.

(ii) Subject to the last sentence of this subsection, the annual Non-Qualified Bonus shall be an amount equal to $75,000.00 for each full one percent of growth in the Company's pre-tax profit over the pre-tax profit in the prior year (e.g., if pre-tax profit grows 10% in 1999 as compared with 1998, then Employee's Non-Qualified Bonus for 1999 shall be $750,000.00; if pre-tax profit grows 25% in 2000 as compared with 1999, then Employee's Non-Qualified Bonus for 2000 shall be $1,875,000.00). Notwithstanding anything else to the contrary, the amount of any Non-Qualified Bonus earned in any year shall be reduced, dollar for dollar, by the amount of any Qualified Bonus earned in that same year.

5. EXPENSES AND BENEFITS.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4 hereof, 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 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. While the Company shall not reimburse Employee for all incremental travel and entertainment expenses directly attributable to Employee's spouse, it is recognized that Employee's spouse will generally accompany Employee on business

trips, and that such accompaniment by Employee's spouse is a benefit to the Company in that it assists Employee in the efficient and effective performance of his duties.

(b) Vacation. Employee shall receive four (4) weeks paid vacation for each twelve (12) month period of employment with the Company. The vacation may be taken any time during the year subject to prior approval by the Company, such approval not to be unreasonably withheld. Any unused time will accrue from year to year. The maximum vacation time Employee may accrue shall be three times Employee's annual vacation benefit. The Company reserves the right to pay Employee for unused, accrued vacation benefits in lieu of providing time off.

(c) Benefits. During Employee's employment with the Company pursuant to this Agreement, the Company shall provide for Employee to:

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

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

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

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

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

(d) Club Membership. The Company shall continue to make available to Employee the benefits of at least one corporate membership at a mutually agreed upon country club. While the Company has paid the costs of initiation, Employee shall be responsible for all other expenses and costs associated with such club use, including monthly member dues and charges. The club membership itself shall belong to and be the property of the Company, not Employee. Upon the termination of Employee's employment with the Company, Employee shall have the option for ninety (90) days to purchase such club membership from the Company, if it is otherwise transferable, at a price equal to the actual cost to the Company of the membership at the time it was acquired.

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

(f) Stock Options.

(i) Pursuant to a separate stock option agreement, the Company shall provide to Employee options to purchase up to 1,000,000 shares of the Common Stock of the Company at $40.00 per share (these stock options granted pursuant to this subsection hereinafter referred to as "Incentive Options"). Such Incentive Options shall vest on July 15, 2003. Notwithstanding anything else to the contrary, Employee's stock options granted pursuant to this subsection 5(f)(i) shall be subject to accelerated vesting as provided in subsection 5(f)(ii).

(ii) Employee's stock options granted pursuant to subsection 5(f)(i) shall be subject to accelerated vesting in accord with the following terms and conditions:

SHARES	VESTING DATE AND CONDITIONS
100,000	On the date upon which the average closing price for the Common Stock of the Company on the New York Stock Exchange for the trailing sixty (60) days is equal to or greater than $40.00 per share, if such date occurs prior to July 15, 2002;
100,000	On the date upon which the average closing price for the Common Stock of the Company on the New York Stock Exchange for the trailing sixty (60) days is equal to or greater than $45.00 per share, if such date occurs prior to July 15, 2002;
100,000	On the date upon which the average closing price for the Common Stock of the Company on the New York Stock Exchange for the trailing sixty (60) days is equal to or greater than $50.00 per share, if such date occurs prior to July 15, 2002;
100,000	On the date upon which the average closing price for the Common Stock of the Company on the New York Stock Exchange for the trailing sixty (60) days is equal to or greater than $55.00 per share, if such date occurs prior to July 15, 2002;
100,000	On the date upon which the average closing price for the Common Stock of the Company on the New York Stock Exchange for the trailing sixty (60) days is equal to or greater than $60.00 per share, if such date occurs prior to July 15, 2002; and

500,000 On the date upon which the average closing price for the Common Stock of the Company on the New York Stock Exchange for the trailing sixty (60) days is equal to or greater than $65.00 per share, if such date occurs prior to July 15, 2002.

(iii) All shares of stock that are issuable upon the exercise of such options granted to Employee pursuant to this subsection shall be registered as promptly as possible with the Securities and Exchange Commission, and shall be approved for listing on the New York Stock Exchange upon notice of issuance. Except as otherwise provided herein, in the separate stock option agreements, or in any other written agreement between the Company and Employee, vesting of these stock options shall be conditioned upon Employee's continued employment with the Company as of the vesting date. Such options shall expire four (4) years following vesting if not exercised prior thereto, and shall be transferable to the full extent permitted by the law and the Company's stock option plan from which they are issued. At the discretion of the Board of Directors or its designee, such options may be granted as incentive stock options ("ISOs").

(g) Tax Indemnification. Employee and the Company recognize the existence of the Tax Indemnification Agreement effective July 20, 1995 between Employee and the Company, as amended effective January 1, 1996. It is specifically agreed that the Company shall do nothing to reduce the benefits or protections available to Employee pursuant to that agreement during the term of this Agreement.

6. DISABILITY. If on account of any physical or mental disability Employee shall fail or be unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of up to six (6) months during any twelve month period during the term of this Agreement, Employee shall be entitled to his full compensation and benefits as set forth in this Agreement. If Employee's disability continues after such six (6) month period, this Agreement is subject to termination pursuant to the provisions of Section 8(e) hereof.

7. NONCOMPETITION.

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

(b) Other Employees. Except as may be required in the performance of his duties hereunder, Employee shall not cause or induce, or attempt to cause or

induce, any person now or hereafter employed by the Company, or any subsidiary, to terminate such employment, nor shall Employee directly or indirectly employ any person who is now or hereafter employed by the Company for a period of one (1) year from the date Employee ceases to be employed by the Company.

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

(d) Conflict of Interest. While employed by the Company, Employee shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Employee's duties and obligations to the Company.

8. TERMINATION.

(a) Termination at the Company's Convenience. Employee's employment under this Agreement may be terminated by the Company at its convenience at any time upon the majority vote of the group consisting of Ely Callaway, if Ely Callaway is a member of the Company's Board of Directors at the time, and the non-employee members of the Company's Board of Directors, or the majority vote of the entire Board of Directors. In the event of a termination at the Company's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the remainder of the term of this Agreement; (iii) the immediate vesting of unvested stock options as provided in Exhibit B to this Agreement; (iv) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to the remainder of the term of this Agreement; and (v) no other severance. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (iii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

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

(c) Termination by the Company for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by the Company for substantial cause at any time. In the event of a termination by the Company for substantial cause, 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 for purposes of this subsection breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, disloyalty and/or felony criminal conduct.

(d) Termination by Employee for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by Employee for substantial cause at any time. In the event of a termination by Employee for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the remainder of the term of this Agreement; (iii) the immediate vesting of unvested stock options as provided in Exhibit B to this Agreement; (iv) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to the remainder of the term of this Agreement; and (v) no other severance. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (iii) of this subsection in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination. "Substantial cause" shall mean for purposes of this subsection a diminution in Employee's title or duties or any material breach of this Agreement by the Company.

(e) Termination Due to Permanent Disability. Subject to all applicable laws, Employee's employment under this Agreement may be terminated immediately by the Company in the event Employee becomes permanently disabled. In the event of a termination by the Company due to Employee's permanent disability, Employee shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the remainder of the term of this Agreement (net of any disability insurance proceeds); (iii) the immediate vesting of outstanding but unvested stock options (including Incentive Options) held by Employee as of such termination date in a prorated amount based upon the number of days in the contract period that elapsed prior to Employee's termination; (iv) the continuation of all benefits and perquisites provided by Section 5(c)(i) and (ii) hereof for a period of time equal to the remainder of the term of this Agreement; and (v) no other severance. Termination under this subsection shall be effective immediately upon the date the Board of Directors of the Company formally resolves that Employee is permanently disabled. Subject to all applicable laws, "permanent disability" shall mean the inability of Employee, by reason of any ailment or illness, or physical or mental condition, to devote substantially all of his time during normal business hours to the daily performance of Employee's duties as required under this Agreement for a continuous period of six (6) months. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(f) Termination Due to Death. Employee's employment under this Agreement may be terminated immediately by the Company in the event of Employee's death. In the event of a termination by the Company due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the immediate vesting of outstanding but unvested stock options (including Incentive Options) held by Employee as of such termination date in a prorated amount based upon the number of days in the contract period that elapsed prior to Employee's termination; and (iii) no other severance. At Employee's option, Employee may elect in writing at least 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(g) Unless otherwise provided, any severance payments or other amounts due pursuant to this Section 8 shall be paid in cash within thirty (30) days of termination. Any severance payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements. Except for such severance pay and other amounts specifically provided pursuant to this Section 8, Employee shall not be entitled to any further compensation, bonus, damages, restitution, relocation benefits, or other severance benefits upon termination of employment during the term of this Agreement. The amounts payable to Employee pursuant to this Section 8 shall not be treated as damages, but as severance compensation to which Employee is entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee hereunder any amounts earned by Employee in other employment after termination of his 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 8 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company or with Employee's participation in, or terminating distributions and vested rights under, any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(h) 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.

(i) Pre-Termination Rights. The Company shall have the right, at its option, to require Employee to vacate his office or otherwise remain off the Company's premises prior to the effective date of termination as determined above, and to cease any and all activities on the Company's behalf.

9. RIGHTS UPON A CHANGE IN CONTROL.

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

(b) Employee may elect at any time within ninety (90) days following a Change in Control to terminate this Agreement at Employee's convenience. If Employee so elects, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the remainder of the term of this Agreement (without giving effect to the extension provisions of Section 9(a) above); (iii) the immediate vesting of all outstanding but unvested stock options (including Incentive Options) held by Employee as of such termination date; (iv) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to the remainder of the term of this Agreement; and (v) no other severance. Moreover, the provisions of Section 8(g) shall be applicable to any severance paid pursuant hereto.

(c) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one year following any Change in Control that occurs during the term of this Agreement there is a Termination Event (as defined below), Employee shall be entitled to receive, in lieu of any other severance provided for in Section 8 of this Agreement, (i) any compensation accrued and unpaid as of the date of termination; (ii) an amount equal to 2.99 times Employee's average total compensation (base salary and bonus) in the preceding three (3) years; (iii) the immediate vesting of all unvested stock options (including Incentive Options) held by Employee as of such termination date; (iv) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to the remainder of the term of this Agreement; and (v) no other severance. Furthermore, except as specifically provided herein, the termination events and consequences described in Section 8 shall continue to apply during the term of the Extended Employment Agreement except that, in the event of a conflict between Section 8 and the rights of Employee described in this Section 9, the provisions of this Section 9 shall govern.

(d) A "Termination Event" shall mean the occurrence of any one or more of the following (in the absence of any basis for termination pursuant to Sections 8(c), 8(e) or 8(f)):

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

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

(iii) any change 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, stock options, 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 he had immediately prior to the Change in Control.

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

11. GENERAL RELATIONSHIP. 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.

12. PROPRIETARY INFORMATION.

(a) Employee agrees that any trade secret or proprietary information of the Company to which Employee has become privy or may become privy to as a result of his employment with the Company shall not be divulged or disclosed to any other party (including, without limit, any person or entity with whom or in whom Employee has a business interest) without the express written consent of the Company, except as otherwise required by law. In addition, Employee agrees to use such information only during the term of this Agreement and only in a manner which is consistent with the

purposes of this Agreement. In the event Employee believes that he is legally required to disclose any trade secret or proprietary information of the Company, Employee shall give reasonable notice to the Company prior to disclosing such information and shall take such legally permissible steps as are reasonably necessary to protect such Company trade secrets or proprietary information, including but not limited to, seeking orders from a court of competent jurisdiction preventing disclosure or limiting disclosure of such information beyond that which is legally required. The Company shall reimburse Employee for reasonable legal expenses incurred in seeking said orders.

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

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

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

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

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

(d) The provisions of this Section 12 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

13. INVENTIONS AND INNOVATIONS.

(a) As used in this Agreement, inventions and innovations mean ideas and improvements, whether or not patentable, relating to the design, manufacture, use or marketing of golf equipment or other products of the Company. This includes, but is not

limited to, products, processes, methods of manufacture, distribution and management, sources of and uses for materials, apparatus, plans, systems and computer programs.

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

(c) Employee agrees to assign any invention or innovation to the Company:

(i) which is developed totally or partially while Employee is employed by the Company;

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

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

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

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

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

(g) Employee shall disclose all inventions and innovations to the Company, even if Employee does not believe that he is required under this Agreement, or pursuant to California Labor Code Section 2870, to assign his interest in such invention or innovation to the Company. If the Company and Employee disagree as to whether or

not an 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.

14. ASSIGNMENT. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the successors and assigns of the Company. Except as otherwise specifically provided in writing, Employee 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 Employee.

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

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Employee or the Company not herein contained. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

17. NOTICES. Any notice, request, demand, or other communication required or permitted hereunder, shall be deemed properly given when actually received or within five (5) days of mailing by certified or registered mail, postage prepaid, to:

Employee: Donald H. Dye
P.O. Box 675870
Rancho Santa Fe, California 92061-6375

Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815
Attn: Ely Callaway

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

18. ARBITRATION. Any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, or relating to Employee's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to arbitration.

The arbitration shall be conducted by a retired judge from the Judicial Arbitration and Mediation Service/Endispute ("JAMS") office located in Orange County, California, who shall have the powers to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The arbitration award shall be final and binding, and judgment on the award may be entered in any court having jurisdiction thereof. It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery to only those matters clearly relevant to the dispute.

19. MISCELLANEOUS.

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

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

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

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

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

be construed so as to give the maximum force and effect to the provisions of this Agreement.

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

EMPLOYEE:	COMPANY: CALLAWAY GOLF COMPANY, a California corporation
/s/ DONALD H. DYE	By: /s/ ELY CALLAWAY
Donald H. Dye	Ely Callaway, Chairman

EXHIBIT A

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

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

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

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

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

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

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

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

EXHIBIT B

Pursuant to Sections 8(a)(iii) and 8(d)(iii) of the Agreement, Employee shall be entitled to the immediate vesting of unvested options as follows:

(a) Incentive Options. If the termination occurs in the first, second or third year of this Agreement (1997, 1998 or 1999), then 300,000 of Employee's unvested Incentive Options granted pursuant to Section 5(f)(i) shall immediately vest; if the termination occurs in the fourth year of this Agreement (2000), then 400,000 of Employee's unvested Incentive Options granted pursuant to Section 5(f)(i) shall immediately vest; and if the termination occurs in the fifth year of this Agreement (2001), then 500,000 of Employee's unvested Incentive Options granted pursuant to Section 5(f)(i) shall immediately vest. If, due to prior vestings of Incentive Options, Employee's unvested Incentive Options are less than the number that would vest pursuant to this provision, then the lesser number shall vest.

(b) Options Other Than Incentive Options. Notwithstanding what Incentive Options may vest, all other outstanding but unvested options held by Employee as of the termination date shall immediately vest upon termination.

Exhibit 10.4.1

2.2 Building Lease

AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE-NET
(Do not use this form for Multi-Tenant Property)

1. Basic Provisions ("Basic Provisions")

1.1 Parties: This Lease ("Lease"), dated for reference purposes only, December 20, 1996, is made by and between Techplex, L.P., A California Limited Partnership ("Lessor") and Putter Properties, Inc., a Delaware Corporation ("Lessee"), (collectively the "Parties," or individually a "Party").

1.2 Premises: That certain real property, including all improvements therein or to be provided by Lessor under the terms of this Lease, and commonly known by the street address of 1969 Kellogg Avenue located in the County of San Diego, State of California and generally described as (describe briefly the nature of the property) the land and an industrial building totaling approximately 32,975 square feet located in the Carlsbad Airport Centre, Carlsbad, California 92008, as depicted on EXHIBIT "1" annexed to the Addendum, see Addendum, (S)1, ("Premises"). (See Paragraph 2 for further provisions.)

1.3 Term: Ten (10) years and Zero (0) months ("Original Term") commencing February 1, 1997 ("Commencement Date") and ending one hundred twenty (120) months thereafter ("Expiration Date"). (See Paragraph 3 for further provisions.)

1.4 Early Possession: See Addendum, (S)6 ("Early Possession Date"). (See Paragraphs 3.2 and 3.3 for further provisions.)

1.5 Base Rent: $14,038.00 per month ("Base Rent"), payable on the first (1st) day of each month commencing February 1, 1997, subject to adjustment. See Addendum, (S)3. (See Paragraph 4 for further provisions.)

[X] If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted. See Addendum, (S)3.

1.6 Base Rent Paid Upon Execution: $14,038.00 (Fourteen Thousand Thirty-Eight and no/100ths Dollars) as Base Rent for the period of February 1, 1997 through February 28, 1997.

1.7 Security Deposit: $25,617.00. See Addendum, (S)4, ("Security Deposit"). (See Paragraph 5 for further provisions.)

1.8 Permitted Use: General office, research, development and manufacturing and any other legally permitted use. (See Paragraph 6 for further provisions.)

1.9 Insuring Party: Lessor is the "Insuring Party" unless otherwise stated herein. (See Paragraph 8 for further provisions.)

1.10 Real Estate Brokers: The following real estate brokers (collectively, the "Brokers") and brokerage relationships exist in this transaction and are consented to by the Parties (check applicable boxes): CB Commercial Real Estate Group, Inc. represents [_] Lessor exclusively ("Lessor's Broker"); [X] both Lessor and Lessee, and CB Commercial Real Estate Group, Inc. represents [_] Lessee exclusively ("Lessee's Broker"); [X] both Lessee and Lessor. (See Paragraph 15 for further provisions.) See Addendum, (S)5.

1.11 Guarantor. The obligations of the Lessee under this Lease are to be guaranteed by Tommy Armour Golf Company and Odyssey Sports, Inc. ("Guarantor"). (See Paragraph 37 for further provisions.)

1.12 Addenda. Attached hereto is an Addendum or Addenda consisting of pages 1 through 12 and Exhibits 1 through 6 of the Addendum all of which constitute a part of this Lease.

2. Premises. See Addendum, (S)7.

2.1 Letting. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of square footage set forth in this Lease, or that may have been used in calculating rental, is an approximation which Lessor and Lessee agree is reasonable and the rental based thereon is not subject to revision whether or not the actual square footage is more or less.

2.2 Condition. Lessor shall deliver the Premises to Lessee clean and free of debris on the Scheduled Completion Date and warrants to Lessee that the existing plumbing, fire sprinkler system, lighting, air conditioning, heating and loading doors, if any, in the Premises, other than those constructed by Lessee, shall be in good operating condition as of that date. If a non-compliance with said warranty exists on the Scheduled Completion Date, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty as provided in the Addendum, (S)7, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense.

2.3 Compliance with Covenants, Restrictions and Building Code. Lessor warrants to Lessee that the improvements on the Premises comply with all applicable covenants or restrictions of record and applicable building codes, regulations and ordinances in effect on the Substantial Completion Date. Said warranty does not apply to the use to which Lessee will put the Premises or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee. If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty as provided in the Addendum, (S)8, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense.

2.4 Acceptance of Premises. Lessee hereby acknowledges that neither Lessor, nor any of Lessor's agents, has made any oral or written representations or warranties with respect to the said matters other than as set forth in this Lease.

3. Term.

3.1 Term. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 Early Possession. See Addendum, (S)9.

3.3 Delay in Possession. See Addendum, (S)(S) 6 and 9.

4. Rent.

4.1 Base Rent. Lessee shall cause payment of Base Rent and other rent or charges, as the same may be adjusted from time to time, to be received by Lessor in lawful money of the United States, without offset or deduction, on or before the day on which it is due under the terms of this Lease. Base Rent and all other rent and charges for any period during the term hereof which is for less than one (1) full calendar month shall be prorated based upon the actual number of days of the calendar month involved. Payment of Base Rent and other charges shall be made to Lessor at its address stated herein or to such other persons or at such other addresses as Lessor may from time to time designate in writing to Lessee.

5. Security Deposit. Lessee shall deposit with Lessor upon execution hereof the Security Deposit set forth in Paragraph 1.7 as security for Lessee's faithful performance of Lessee's obligations under this Lease. If Lessee fails to pay Base Rent or other rent or charges due hereunder, or otherwise Breaches under this Lease (as defined in Paragraph 13.1), Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, cost, expense, loss or damage (including attorneys' fees) which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of said Security Deposit, Lessee shall within ten (10) days after written request therefor deposit moneys with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. Lessor shall not be required to keep all or any part of the Security Deposit separate from its general accounts. Lessor, shall, at the expiration or earlier termination of the term hereof and after Lessee has vacated the Premises, return to Lessee (or, at Lessor's

option, to the last assignee, if any, of Lessee's interest herein), that portion of the Security Deposit not used or applied by Lessor. Unless otherwise expressly agreed in writing by Lessor, no part of the Security Deposit shall be considered to be held in trust, to bear interest or other increment for its use, or to be prepayment for any moneys to be paid by Lessee under this Lease. See Addendum, (S)4.

6. Use. See Addendum, (S)10.

6.1 Use. Lessee shall use and occupy the Premises only for the purposes set forth in Paragraph 1.8, or any other use which is comparable thereto and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that creates waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to, neighboring premises or properties. Lessor hereby agrees to not unreasonably withhold or delay its consent to any written request by Lessee. Lessees assignees or subtenants, and by prospective assignees and subtenants of the Lessee, its assignees and subtenants, for a modification of said permitted purpose for which the premises may be used or occupied, so long as the same will not impair the structural integrity of the improvements on the Premises, the mechanical or electrical systems therein, is not significantly more burdensome to the Premises and the improvements thereon, and is otherwise permissible pursuant to this Paragraph 6. If Lessor elects to withhold such consent, Lessor shall within five (5) business days give a written notification of same, which notice shall include an explanation of Lessor's reasonable objections to the change in use.

6.2 Hazardous Substances.

(a) Reportable Uses Require Consent. The term "Hazardous Substance" as used in this Lease shall mean any product, substance, chemical material or waste whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in, on or about the Premises which constitute a Reportable Use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Lessor and compliance in a timely manner (at Lessee's sole cost and expense) with all Applicable Law (as defined in Paragraph 6.3). "Reportable Use" shall mean (i) the installation or use of an above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires permit from, or with respect to which a report, notice, registration or business plan is required to be filled with, any governmental authority. Reportable Use shall also include Lessee's being responsible for the presence in, on or about the Premises of a Hazardous Substance with respect to which any Applicable Law requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may without Lessor's prior consent, but in compliance with all Applicable Law, use any ordinary and customary materials reasonably required to be used by Lessee in the normal course of Lessee's business permitted on the Premises, so long as such use is not a Reportable Use and does not expose the Premise or neighboring properties to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may (but without any obligation to do so) condition its consent to the use or presence of any Hazardous Substance, activity or storage tank by Lessee upon Lessee's giving Lessor such additional assurances as Lessor, in its reasonable discretion, deems necessary to protect itself, the public, the Premises and the environment against damage, contamination or injury and/or liability therefrom or therefor, including, but not limited to, the installation (and removal on or before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises (such as concrete encasements).

(b) Duty to Inform Lessor. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance, or a condition involving or resulting from same, has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor. Lessee shall also immediately give Lessor a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action or proceeding given to, or received from, any governmental authority or private party, or persons entering or occupying the Premises, concerning the presence, spill, release, discharge of, or exposure to, any Hazardous Substance or contamination in, on, or about the Premises, including but not limited to all such documents as may be involved in any Reportable Uses involving the Premises.

(c) Indemnification. Lessee shall indemnify, protect, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, and the Premises, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, costs, claims, liens, expenses, penalties, permits and attorney's and

consultant's fees arising out of or involving any Hazardous Substance or storage tank brought onto the Premises by or for Lessee or under Lessee's control. Lessee's obligations under this Paragraph 6 shall include, but not be limited to, the effects of any contamination or injury to persons, property or the environment created or permitted by Lessee, and the cost of investigation (including consultant's and attorney's fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of the Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances or storage tanks, unless specifically so agreed by Lessor in writing at the time of such agreement.

6.3 Lessee's Compliance with Law. Except as otherwise provided in this Lease, Lessee, shall, at Lessee's sole cost and expense, fully, diligently and in a timely manner, comply with all "Applicable Law," which term is used in this Lease to include all laws, rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (i) industrial hygiene, (ii) environmental conditions on, in, under or about the Premises, including soil and groundwater conditions, and (iii) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill or release of any Hazardous Substance or storage tank), now in effect or which may hereafter come into effect, and whether or not reflecting a change in policy from any previously existing policy. Lessee shall, within five (5) days after receipt of Lessor's written request, provide Lessor with copies of all documents and information, including, but not limited to, permits, registrations, manifests, applications, reports and certificates, evidencing Lessee's compliance with any Applicable Law specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Lessee or the Premises to comply with any Applicable Law. See Addendum, (S)8.

6.4 Inspection; Compliance. Lessor and Lessor's Lender(s) (as defined in Paragraph 8.3(a)) shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times after reasonable notice, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease and all Applicable Laws (as defined in Paragraph 6.3), and to employ experts and/or consultants in connection therewith and to advise Lessor with respect to Lessee's activities, including but not limited to the installation, operation, use, monitoring, maintenance, or removal of a Hazardous Substance or storage tank on or from the Premises. The costs and expenses of any such inspections shall be paid by the party requesting same, unless a Breach of this Lease, violation of Applicable Law, or a contamination, caused or materially contributed to by Lessee is found to exist or be imminent, or unless the inspection is requested or ordered by a governmental authority as the result of any such existing or imminent violation or contamination. In any such case, Lessee shall upon request reimburse Lessor or Lessor's Lender, as the case may be, for the costs and expenses of such inspections.

7. Maintenance; Repairs; Utility Installations; Trade Fixtures and Alterations.

7.1 Lessee's Obligations.

(a) Subject to Lessor's obligations under Addendum, (S)(S) 2 and 11, and subject to the provisions of Paragraphs 2.2 (Lessor's warranty as to condition), 2.3 (Lessor's warranty as to compliance with covenants, etc.), 7.2 (Lessor's obligations to repair), 9 (damage and destruction), and 14 (condemnation), Lessee shall, at Lessee's sole cost and expense and at all such times, keep the Premises and every part thereof in good order, condition and repair, structural and non-structural (whether or not such portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, without limiting the generality of the foregoing, all equipment or facilities serving the Premises, such as plumbing, heating, air conditioning, ventilating, electrical, lighting facilities, boilers, fired or unfired pressure vessels, fire sprinkler and/or standpipe and hose or other automatic fire extinguishing system, including fire alarm and/or smoke detection systems and equipment, fire hydrants, fixtures, walls (interior and exterior), foundations, ceilings, roofs, floors, windows, doors, plate glass, skylights, landscaping, driveways, parking lots, fences, retaining walls, signs, sidewalks and parkways located in, on, about, or adjacent to the Premises. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises, the elements surrounding same, or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance and/or storage tank brought onto the Premises by or for Lessee or under its control. Lessee,

in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. If Lessee occupies the Premises for seven (7) years or more, Lessor may require Lessee to repaint the exterior of the buildings on the Premises as reasonably required, but not more frequently than once every seven (7) years.

(b) Lessee shall pay as a part of "Operating Expenses," as defined in Addendum, (S)2, the cost of contracts, in customary form and substance for, and with contractors specializing and experienced in, the inspection, maintenance and service of the following equipment and improvements, if any, located on the Premises: (i) heating, air conditioning and ventilation equipment, (ii) boiler, fired or unfired pressure vessels, (iii) fire sprinkler and/or standpipe and hose or other automatic fire extinguishing systems, including fire alarm and/or smoke detection, (iv) landscaping and irrigation systems, (v) roof covering and drain maintenance and (vi) asphalt and parking lot maintenance.

7.2 Lessor's Obligations. Except for the warranties and agreements of Lessor contained in Paragraphs 2.2 (relating to condition of the Premises), 2.3 (relating to compliance with covenants, restrictions and building code), 9 (relating to destruction of the Premises) and 14 (relating to condemnation of the Premises), and as otherwise provided in this Lease (see Addendum, (S)11), it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, the improvements located thereon, or the equipment therein, whether structural or non structural, all of which obligations are intended to be that of the Lessee under Paragraph 7.1 hereof. It is the intention of the Parties that the terms of this Lease govern the respective obligations of the Parties as to maintenance and repair of the Premises. Lessee and Lessor expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease with respect to, or which affords Lessee the right to make repairs at the expense of Lessor or to terminate this Lease by reason of any needed repairs.

7.3 Utility Installations; Trade Fixtures; Alterations.

(a) Definitions; Consent Required. The term "Utility Installations" is used in this Lease to refer to all carpeting, window coverings, air lines, power panels, electrical distribution, security, fire protection systems, communication systems, lighting fixtures, heating, ventilating, and air conditioning equipment, plumbing, and fencing in, on or about the Premises. The term "Trade Fixtures" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term "Alterations" shall mean any modification of the improvements on the Premises from that which are provided by Lessor under the terms of this Lease, other than Utility Installations or Trade Fixtures, whether by addition or deletion. "Lessee Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor as defined in Paragraph 7.4(a). Lessee shall not make any Alterations or Utility Installations in, on, under or about the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof), as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, and the cumulative cost thereof during the term of this Lease as extended does not exceed $50,000.

(b) Consent. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with proposed detailed plans. All consents given by Lessor, whether by virtue of Paragraph 7.3(a) or by subsequent specific consent, shall be deemed conditioned upon: (i) Lessee's acquiring all applicable permits required by governmental authorities, (ii) the furnishing of copies of such permits together with a copy of the plans and specifications for the Alteration or Utility Installation to Lessor prior to commencement of the work thereon, and (iii) the compliance by Lessee with all conditions of said permits in a prompt and expeditious manner. Any Alterations or Utility Installations by Lessee during the term of this Lease shall be done in a good and workmanlike manner, with good and sufficient materials, and in compliance with all Applicable Law. Lessee shall promptly upon completion thereof furnish Lessor with as-built plans and specifications therefor. Lessor may (but without obligation to do so) condition its consent to any requested Alteration or Utility Installation that costs $10,000 or more upon Lessee's providing Lessor with a lien and completion bond in an amount equal to the estimated cost of such Alteration or Utility Installation.

(c) Indemnification. Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanics' or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises as provided by law. If Lessee shall,

in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises. If Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to one and one-half times the amount of such contested lien claim or demand, indemnifying Lessor against liability for the same, as required by law for the holding of the Premises free from the effect of such lien or claim.

7.4 Ownership; Removal; Surrender; and Restoration.

(a) Ownership. Subject to Lessor's right to require their removal or become the owner thereof as hereinafter provided in this Paragraph 7.4, all Alterations and Utility Additions made to the Premises by Lessee shall be the property of and owned by Lessee, but considered a part of the Premises. Lessor may, at any time and at its option, elect in writing to Lessee to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per subparagraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or earlier termination of this Lease, become the property of Lessor and remain upon and be surrendered by Lessee with the Premises. See Addendum, (S)13.

(b) Removal. Unless otherwise agreed in writing, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or earlier termination of this Lease, notwithstanding their installation may have been consented to by Lessor. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent of Lessor.

(c) Surrender/Restoration. Lessee shall surrender the Premises by the end of the last day of the Lease term or any earlier termination date, with all of the improvements, parts and surfaces thereof clean and free of debris and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice or by Lessee performing all of its obligations under this Lease. Except as otherwise agreed or specified in writing by Lessor, the Premises, as surrendered shall include the Utility Installations. The obligation of Lessee shall include the repair of any damage occasioned by the installation, maintenance or removal of Lessee's Trade Fixtures, furnishings, equipment, and Alterations and/or Utility Installations, as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or ground water contaminated by Lessee, all as may then be required by Applicable Law and/or good service practice. Lessee's Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee subject to its obligation to repair and restore the Premises per this Lease.

8. Insurance; Indemnity.

8.1 Payment For Insurance. Regardless of whether the Lessor or Lessee is the Insuring Party, Lessee shall pay for all insurance as a part of operating expenses payable under Addendum, (S)2, required under this Paragraph 8 except to the extent of the cost attributable to liability insurance carried by Lessor in excess of $1,000,000 per occurrence. Premiums for policy periods commencing prior to or extending beyond the Lease term shall be prorated to correspond to the Lease term.

8.2 Liability Insurance.

(a) Carried by Lessee. Lessee shall obtain and keep in force during the term of this Lease a Commercial General Liability policy of insurance protecting Lessee and Lessor (as an additional insured) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $1,000,000 per occurrence with an "Additional Insured-Managers or Lessors of Premises Endorsement and contain the "Amendment of the Pollution Exclusion" for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance required by this Lease or as carried by Lessee shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance to be carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) Carried by Lessor. In the event Lessor is the Insuring Party, Lessor shall also maintain liability insurance described in Paragraph 8.2(a), above, in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 Property Insurance - Building, Improvements and Rental Value. See Addendum, (S)14.

(a) Building and Improvements. The Insuring Party shall obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and to the holders of any mortgages, deeds of trust or ground leases on the Premises ("Lender(s)"), insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full replacement cost of the Premises, as the same shall exist from time to time, or the amount required by Lenders. If Lessor is the Insuring Party, however, Lessee Owned Alterations and Utility Installations shall be insured by Lessee under Paragraph 8.4 rather than by Lessor. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender), including coverage for any additional costs resulting from debris removal and reasonable amounts of coverage for the enforcement of any ordinance or law regulating the reconstruction or replacement of any undamaged sections of the Premises required to be demolished or removed by reason of the enforcement of any building, zoning, safety or land use laws as the result of a covered cause of loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed $1,000 per occurrence, and Lessee shall be liable for such deductible amount in the event of an Insured Loss, as defined in Paragraph 9.1(c).

(b) Rental Value. The Insuring Party shall, in addition, obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and Lender(s), insuring the loss of the full rental and other charges payable by Lessee to Lessor under this Lease for one (1) year (including all real estate taxes, insurance costs, and any scheduled rental increases). Said insurance shall provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss of rental revenues from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected rental income, property taxes, insurance premium costs and other expenses, if any, otherwise payable by Lessee, for the next twelve (12) month period. Lessee shall be liable for any deductible amount in the event of such loss.

(c) Adjacent Premises. If the Premises are part of a larger building, or if the Premises are part of a group of buildings owned by Lessor which are adjacent to the Premises, the Lessee shall pay for any increase in the premiums for the property insurance of such building or buildings if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

(d) Tenant's Improvements. If the Lessor is the Insuring Party, the Lessor shall not be required to insure Lessee Owned Alterations and Utility Installations unless the item in question has become the property of Lessor under the terms of this Lease. If Lessee is the Insuring Party, the policy carried by Lessee under this Paragraph 8.3 shall insure Lessee Owned Alterations and Utility Installations.

8.4 Lessee's Property Insurance. Subject to the requirements of Paragraph 8.5, Lessee at its cost shall either by separate policy or, at Lessor's option, by endorsement to a policy already carried, maintain insurance coverage on all of Lessee's personal property, Lessee Owned Alterations and Utility Installations in, on, or about the Premises similar in coverage to that carried by the Insuring Party under Paragraph 8.3. Such insurance shall be full replacement cost coverage with a deductible of not to exceed $1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property or the restoration of Lessee Owned Alterations and Utility Installations. Lessee shall be the Insuring Party with respect to the insurance required by this Paragraph 8.4 and shall provide Lessor with written evidence that such insurance is in force.

8.5 Insurance Policies. Insurance required hereunder shall be in companies duly licensed to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, or such other rating as may be reasonably required by a Lender having a lien on the Premises, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done anything which shall invalidate the insurance policies referred to in this Paragraph 8. If Lessee is the Insuring Party, Lessee shall cause to be delivered to Lessor certified copies of policies of such insurance or

certificates evidencing the existence and amounts of such insurance with the insureds and loss payable clause as required by this Lease. No such policy shall be cancellable or subject to modification except after thirty (30) days prior written notice to Lessor. Lessee shall at least thirty (30) days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof. If the Insuring Party shall fail to procure and maintain the insurance required to be carried by the Insuring Party under this Paragraph 8, the other Party may, but shall not be required to, procure and maintain the same, but at Lessee's expense.

8.6 Waiver of Subrogation. Without affecting any other rights or remedies, Lessee and Lessor ("Waiving Party") each hereby release and relieve the other, and waive their entire right to recover damages (whether in contract or in tort) against the other, for loss of or damage to the Waiving Party's property arising out of or incident to the perils required to be insured against under Paragraph 8. The effect of such releases and waivers of the right to recover damages shall not be limited by the amount of insurance carried or required, or by any deductibles applicable thereto.

8.7 Indemnity. Except for Lessor's negligence and/or breach of express warranties, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, costs, liens, judgments, penalties, permits, attorney's and consultant's fees, expenses and/or liabilities arising out of, involving, or in dealing with the occupancy of the Premises by Lessee, the conduct of Lessee's business, any act, omission or neglect of Lessee, its agents, contractors, employees or invitees, and out of any Default or Breach by Lessee in the performance in a timely manner of any obligation on Lessee's part to be performed under this Lease. The foregoing shall include, but not be limited to, the defense or pursuit of any claim or any action or proceeding involved therein, and whether or not (in the case of claims made against Lessor) litigated and/or reduced to judgment, and whether well founded or not. In case any action or proceeding be brought against Lessor by reason of any of the foregoing matters, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be so indemnified.

8.8 Exemption of Lessor from Liability. Except for Lessor's gross negligence or Breach of this Lease, Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wire appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the building of which the Premises are a part, or from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is accessible or not. Lessor shall not be liable for any damages arising from any act of neglect of any other tenant of Lessor. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom. See Addendum, (S)12.

9. Damage or Destruction. See Addendum, (S)15.

9.1 Definitions.

(a) "Premises Partial Damage" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, the repair and cost of which damage or destruction is less than 50% of the then Replacement Cost of the Premises immediately prior to such damage or destruction, excluding from such calculation the value of the land and Lessee Owned Alterations and Utility Installations.

(b) "Premises Total Destruction" shall mean damage or destruction to the Premises, other than Lessee Owned Alterations and Utility Installations, the repair cost of which damage or destruction is 50% or more of the then Replacement Cost of the Premises immediately prior to such damage or destruction, excluding from such calculation the value of the land and Lessee Owned Alterations and Utility Installations.

(c) "Insured Loss" shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts coverage limits involved.

(d) "Replacement Cost" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition,

debris removal and upgrading required by the operation of applicable building codes, ordinances or laws, and without deduction for depreciation.

(e) "Hazardous Substance Condition" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

9.2 Partial Damage - Insured Loss. If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is $10,000 or less, and, in such event, Lessor shall make the insurance proceeds available to Lessee on a reasonable basis for this purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds (except as to the deductible which is Lessee's responsibility) as and when required to complete said repairs. In the event, however, the shortage in proceeds was due to the fact that, by reason of the unique nature of the improvements, replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said ten (10) day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If Lessor does not receive such funds or assurance within said period, Lessor may nevertheless elect by written notice to Lessee within ten (10) days thereafter to make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds in which case this Lease shall remain in full force and effect. If in such case Lessor does not so elect, then this Lease shall terminate sixty (60) days following the occurrence of the damage or destruction. Unless otherwise agreed, Lessee shall in no event have any right to reimbursement from Lessor any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3 rather than Paragraph 9.2., notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 Partial Damage - Uninsured Loss. If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 13), Lessor may at Lessor's option, either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such damage of Lessor's desire to terminate this Lease as of the date sixty (60) days following the giving of such notice. In the event Lessor elects to give such notice of Lessor's intention to terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage totally at Lessee's expense and without reimbursement from Lessor. Lessee shall provide Lessor with the required funds or satisfactory assurance thereof within thirty (30) days following Lessee's said commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible and the required funds are available. If Lessee does not give such notice and provide the funds or assurance thereof within the times specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination. See Addendum, (S)15.1.

9.4 Total Destruction. Notwithstanding any other provision hereof, if a Premises Total Destruction occurs (including any destruction required by any authorized public authority), this Lease shall terminate sixty (60) days following the date of such Premises Total Destruction, whether or not the damage or destruction is an Insured Loss or was caused by a negligent or willful act of Lessee. In the event, however, that the damage or destruction was caused by Lessee, Lessor shall have the right to recover Lessor's damages from Lessee except as released and waived in Paragraph 8.6.

9.5 Damage Near End of Term. If at any time during the last six (6) months of the term of this Lease there is damage for which the cost to repair exceeds one (1) month's Base Rent, whether or not an Insured Loss, Lessor may, at Lessor's option, terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within thirty (30) days after the date of occurrence of such damage. Provided, however, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, within twenty (20) days following the

occurrence of the damage, or before the expiration of the time provided in such option for its exercise, whichever is earlier ("Exercise Period"), (i) exercising such option and (ii) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs. If Lessee duly exercises such option during said Exercise Period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's expense repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during said Exercise Period, then Lessor may at Lessor's option terminate this Lease as of the expiration of said sixty (60) day period following the occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of the Exercise Period, notwithstanding any term or provision in the grant of option to the contrary. See Addendum, (S)15.2.

9.6 Abatement of Rent; Lessee's Remedies. See Addendum, (S)15.3.

(a) In the event of damage described in Paragraph 9.2 (Partial Damage - - -Insured), whether or not Lessor or Lessee repairs or restores the Premises, the Base Rent, Real Property Taxes, insurance premiums, and other charges, if any, payable by Lessee hereunder for the period during which such damage, its repair or the restoration continues (not to exceed the period for which rental value insurance is required under Paragraph 8.3(b)), shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired. Except for abatement of Base Rent, Real Property Taxes, insurance premiums, and other charges, if any, as aforesaid, all other obligations of Lessee hereunder shall be performed by Lessee, and Lessee shall have no claim against Lessor for any damage suffered by reason of any such repair or restoration, except for Lessor's gross negligence or willful misconduct.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this Paragraph 9 and shall not commence, in a substantial and meaningful way, the repair or restoration of the Premises within ninety (90) days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice of Lessee's election to terminate this Lease on a date not less than sixty days following the giving of such notice. If Lessee gives such notice to Lessor and such Lenders and such repair or restoration is not commenced within thirty (30) days after receipt of such notice, this Lease shall terminate as of the date specified in said notice. If Lessor or a Lender commences the repair or restoration of the Premises within thirty (30) days after receipt of such notice, this Lease shall continue in full force and effect. "Commence" as used in this Paragraph shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

9.7 Hazardous Substance Conditions. If a Hazardous Substance Condition occurs, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by Applicable Law and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 13), Lessor may at Lessor's option either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to investigate and remediate such condition exceeds twelve (12) times the then monthly Base Rent or $100,000, whichever is greater, give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition of Lessor's desire to terminate this Lease as of the date sixty (60) days following the giving of such notice. In the event Lessor elects to give such notice of Lessor's intention to terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the investigation and remediation of such Hazardous Substance Condition totally at Lessee's expense and without reimbursement from Lessor except to the extent of an amount equal to twelve (12) times the then monthly Base Rent or $100,000, whichever is greater. Lessee shall provide Lessor with the funds required of Lessee or satisfactory assurance thereof within thirty (30) days following Lessee's said commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such investigation and remediation as soon as reasonably possible and the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the times specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination. If a Hazardous Substance Condition occurs for which Lessee is not legally responsible, there shall be abatement of Lessee's obligations under this Lease to the same extent as provided in Paragraph 9.6(a) for a period of not to exceed twelve (12) months.

9.8 Termination - Advance Payments. Upon termination of this Lease pursuant to this Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor under the terms of this Lease. See Addendum, (S)15.4.

9.9 Waive Statutes. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

10. Real Property Taxes.

10.1 Payment of Taxes. Lessee shall pay the Real Property Taxes, as defined in Paragraph 10.2, applicable to the Premises during the term of this Lease as a part of the Operating Expenses payable under Addendum, (S)2. If any such taxes to be paid by Lessee shall cover any period of time prior to or after the expiration or earlier termination of the term hereof, Lessee's share of such taxes shall be equitably prorated to cover only the period of time within the tax fiscal year this Lease is in effect, and Lessor shall reimburse Lessee for any overpayment after such proration.

10.2 Definition of "Real Property Taxes." As used herein, the term "Real Property Taxes" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed upon the Premises by any authority having the direct or indirect power to tax, including any city, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, levied against any legal or equitable interest of Lessor in the Premises or in the real property of which the Premises are a part, Lessor's right to rent or other income therefrom, and/or Lessor's business of leasing the Premises. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein imposed by reason of events occurring, or changes in applicable law taking effect, during the term of this Lease, including but not limited to a change in the ownership of the Premises or in the improvements thereon, the execution of this Lease, or any modification, amendment or transfer thereof, and whether or not contemplated by the Parties.

10.3 Joint Assessment. If the Premises are not separately assessed, Lessee's liability shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.4 Personal Property Taxes. Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee Owned Alterations, Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises or elsewhere. When possible, Lessee shall cause its Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property or, at Lessor's option, as provided in Paragraph 10.1(b).

11. Utilities. Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to Lessee, Lessee shall pay a reasonable proportion, to be determined by Lessor, of all charges jointly metered with other premises.

12. Assignment and Subletting. See Addendum, (S)16.

12.1 Lessor's Consent Required.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or otherwise transfer or encumber (collectively, "assignment") sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent given under and subject to the terms of Paragraph 36.

(b) See Addendum, (S)16.

(c) See Addendum, (S)16.

(d) An assignment or subletting of Lessee's interest in this Lease without Lessor's specific prior written consent shall, at Lessor's option, be Default curable after notice per Paragraph 13.1(c). Lessor shall have the right to upon thirty (30) days written notice ("Lessor's Notice"), increase the monthly Base Rent to fair market

rental value or one hundred ten percent (110%) of the Base Rent then in effect, whichever is greater. Pending determination of the new fair market rental value, if disputed by Lessee, Lessee shall pay the amount set forth in Lessor's Notice, with any overpayment credited against the next installment(s) of Base Rent coming due, and any underpayment for the period retroactively to the effective date of the adjustment being due and payable immediately upon the determination thereof. Further, in the event such Breach and market value adjustment, (i) any index-oriented rental or price adjustment formulas contained in this Lease shall be adjusted to require that the base index is determined with reference to the index applicable to the time of such adjustment, and (ii) any fixed rental adjustments scheduled during the remainder of the Lease term shall be increased in the same ratio as the new market rental bears to the Base Rent in effect immediately prior to the market value adjustment.

12.2 Terms and Conditions Applicable to Assignment and Subletting.

(a) Regardless of Lessor's consent, any assignment shall not: (i) be effective without the express written assumption by such assignee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, or (iii) alter the primary liability of Lessee of the payment of Base Rent and other sums due Lessor hereunder or for the performance of any other obligations to be performed by Lessee under the Lease.

(b) Lessor may accept any rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of any rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the Default or Breach by Lessee of any of the terms, covenants or conditions of this Lease.

(c) The consent of Lessor to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Lessor or to any subsequent or successive assignment or subletting by the sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable on the Lease or sublease and without obtaining their consent, and such action shall not relieve such persons from liability under this Lease or sublease.

(d) In the event of any Breach of Lessee's obligations under this Lease, Lessor may proceed directly against Lessee, any Guarantor or any one else responsible for the performance of the Lessee's obligations under this Lease, including the sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor or Lessee.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended and/or required modification of the Premises, if any, together with a non-refundable deposit of $1,000 as reasonable consideration for Lessor's considering and processing the request for consent. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested by Lessor.

(f) Any assignee of this Lease shall, by reason of accepting such assignment, be deemed for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment to which Lessor has specifically consented in writing.

12.3 Additional Terms and Conditions Applicable to Subletting. The following terms and conditions shall apply to any subletting by Lessee of any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease of all or a portion of the Premises heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach (as defined in Paragraph 13.1) shall occur in the performance of Lessee's obligations under this Lease, Lessee may, except as otherwise provided in this Lease, receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of this or any other assignment of such sublease to Lessor, nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents

and other charges due and to become due under the sublease. Sublessee shall rely upon such statement and request from Lessor and shall pay such rents and other charges to Lessor without any obligation or right to inquire as to why such Breach exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against said sublessee or, until the Breach has been cured, against Lessor, for any such rents and other charges so paid by said sublessee to Lessor.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

13. Default; Breach; Remedies. See Addendum, (S)17.

13.1 Default; Breach. Lessor and Lessee agree that if an attorney is consulted by Lessor in connection with a Lessee Default or Breach (as herein defined), $350.00 is a reasonable minimum sum per such occurrence for legal services and costs in the preparation and service of a notice of Default and that Lessor may include the cost of such services and costs in said notice as rent due and payable to cure said Default. A "Default" is defined as a failure by the Lessee to observe, comply with or perform any of the terms, covenants, conditions or rules applicable to Lessee under this Lease. A "Breach" is defined as the occurrence of any one or more of the following Defaults, and, where a grace period for cure after notice is specified herein, the failure by Lessee to cure such Default prior to the expiration of the applicable grace period, shall entitle Lessor to pursue the remedies set forth in Paragraphs 13.2 and/or 13.3:

(a) The abandonment of the Premises.

(b) Except as expressly otherwise provided in this Lease, the failure by Lessee to make any payment of Base Rent or any other monetary payment required to be made by Lessee hereunder, whether to Lessor or to a third party, as and when due, where such failure continues for a period of three (3) days following written notice thereof by or on behalf of Lessor to Lessee.

(c) See Addendum, (S)17.2.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof, that are to be observed, complied with or performed by Lessee, other than those described in subparagraphs (a), (b), or (c), above, where such Default continues for a period of thirty (30) days after written notice thereof by or on behalf of Lessor to Lessee; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach of this Lease by Lessee if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) The making by Lessee of any general arrangement or assignment for the benefit of creditors; (ii) Lessee's becoming a "debtor" as defined in 11 U.S.C. (S)101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days; (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this subparagraph (e) is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

(f) The discovery by Lessor that any financial statement given to Lessor by Lessee or any Guarantor of Lessee's obligations hereunder was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a guarantor; (ii) the termination of a guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty; (iii) a guarantor's becoming insolvent or the subject of a bankruptcy filing, which is not dismissed within 60 days; (iv) a guarantor's refusal to honor the guaranty; or (v) a guarantor's breach of its guaranty obligation on an anticipatory breach basis, and Lessee's failure, within sixty (60) days following written notice by or on behalf of Lessor to Lessee of any such event, to provide Lessor with written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the guarantors that existed at the time of execution of this Lease.

13.2 Remedies. If Lessee fails to perform any affirmative duty or obligation of Lessee under this Lease, within ten (10) days after written notice to Lessee (or in case of an emergency, without notice), Lessor may at its option (but without obligation to do so), perform such duty or obligation on Lessee's behalf with respect to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee to Lessor upon invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its option, may require all future payments to be made under this Lease by Lessee to be made only by cashier's check. In the event of a Breach of this Lease by Lessee, as defined in Paragraph 13.1, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach, Lessor may:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the worth at the time of the award of the unpaid rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of the leasing commission paid by Lessor applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the prior sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Default or Breach of this Lease shall not waive Lessor's right to recover damages under this Paragraph. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding the unpaid rent and damages as are recoverable therein, or Lessor may reserve therein the right to recover all or any part thereof in a separate suit for such rent and/or damages. If a notice and grace period required under subparagraphs 13.1(b), (c) or (d) was not previously given, a notice to pay rent or quit, or to perform or quit, as the case may be, given to Lessee under any statute authorizing the forfeiture of leases for unlawful detainer shall also constitute the applicable notice for grace period purposes required by subparagraphs 13.1(b), (c) or (d). In such case, the applicable grace period under subparagraphs 13.1 (b), (c) or (d) and under the unlawful detainer statute shall run concurrently after the one such statutory notice, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession in effect (in California under California Civil Code Section 1951.4) after Lessee's Breach and abandonment and recover the rent as it becomes due, provided Lessee has the right to sublet or assign, subject only to reasonable limitations. See Paragraphs 12 and 36 for the limitations on assignment and subletting which limitations Lessee and Lessor agree are reasonable. Acts of maintenance or preservation, efforts to relet the Premises, or the appointment of a receiver to protect the Lessor's interest under the Lease, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located.

(d) The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.4 Late Charges. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by the terms of any ground lease, mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within five (5) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to six percent (6%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor

will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of Base Rent, then notwithstanding Paragraph 4.1 or any other provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance. See Addendum, (S)17.

13.5 Breach by Lessor. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph 13.5, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and by the holders of any ground lease, mortgage or deed of trust covering the Premises whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days after such notice are reasonably required for its performance, then Lessor shall not be in breach of this Lease if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

14. Condemnation. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent (10%) of the floor area of the Premises, or more than twenty-five percent (25%) of the land area not occupied by any building, is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing within thirty (30) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within thirty (30) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the building located on the Premises. No reduction of Base Rent shall occur if the only portion of the Premises taken is land on which there is no building. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any compensation separately awarded to Lessee for Lessee's relocation expenses and/or loss of Lessee's Trade Fixtures. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of its net severance damages received, over and above the legal and other expenses incurred by Lessor in the condemnation matter, repair any damage to the Premises caused by such condemnation, except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall be responsible for the payment of any amount in excess of such net severance damages required to complete such repair. See Addendum, (S)18.

15. Broker's Fee.

15.1 The Brokers named in Paragraph 1.10 are the procuring causes of this Lease.

15.2 Upon execution of this Lease by both Parties, Lessor shall pay to said Broker's jointly, or in such separate shares as they may mutually designate in writing, a fee as set forth in a separate written agreement between Lessor and said Brokers (or in the event there is no separate written agreement between Lessor and said Brokers, the sum of $ as per agreement) for brokerage services
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rendered by said Brokers to Lessor in this transaction.

15.3 Unless Lessor and Brokers have otherwise agreed in writing, Lessor further agrees that: (a) if Lessee exercises any Option (as defined in Paragraph 39.1) or any Option subsequently granted which is substantially similar to an Option granted to Lessee in this Lease, or (b) if Lessee acquires any rights to the Premises or other premises described in this Lease which are substantially similar to what Lessee would have acquired had an Option herein granted to Lessee been exercised, or (c) if Lessee remains in possession of the Premises, with the consent of Lessor, after the expiration of the term of this Lease after having failed to exercise an Option, or (d) if said Brokers are the procuring cause of any other lease or sale entered into between the Parties pertaining to the Premises and/or any adjacent property in which Lessor has an interest, or (e) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then as to any of said transactions, Lessor shall pay said Brokers a fee in accordance with the schedule of said Brokers in effect at the time of the execution of this Lease.

15.4 Any buyer or transferee of Lessor's interest in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this Paragraph 15. Each Broker shall be a third party beneficiary of the provisions of this Paragraph 15 to the extent its interest in any commission arising from this Lease and may enforce that right directly against Lessor and its successors.

15.5 Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any named in Paragraph 1.10) in connection with the negotiation of this Lease and/or the consummation of the transaction contemplated herein and that no broker or other person, firm or entity other than said named Brokers is entitled to any commission or finder's fee in connection with such transaction. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.

15.6 Lessor and Lessee hereby consent to and approve all agency relationships, including any dual agencies, indicated in Paragraph 1.10.

16. Tenancy Statement.

16.1 Each Party (as "Responding Party") shall within ten (10) days after written notice from the other Party (the "Requesting Party") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "Tenancy Statement" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

16.2 If Lessor desires to finance, refinance, or sell the Premises, any part thereof, or the building of which the Premises are a part, Lessee and the Guarantors of Lessee's performance hereunder shall deliver to any potential lender or purchaser designated by Lessor financial statements of Lessee and such Guarantors in such form as customarily prepared by Lessee and Guarantor, as applicable (including any additional statements for the last three years), as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past three (3) years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. Lessor's Liability. The term "Lessor" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if it is a sublease, of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or in this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor at the time of such transfer or assignment. Except as provided in Paragraph 15, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined. See Addendum, (S)19.

18. Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. Interest on Past-Due Obligations. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor within thirty (30) days following the date on which it was due, shall bear interest from the thirty-first (31st) day after it was due at the rate of 12% per annum, but not exceed the maximum rate allowed by law, in addition to the late charge provided for in Paragraph 13.4. See Addendum, (S)20.

20. Time of Essence. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

21. Rent Defined. All monetary obligations of Lessee to Lessor under the terms of this Lease are deemed to be rent.

22. No Prior or Other Agreements; Broker Disclaimer. This Lease contains all agreements between the Parties with respect to any matter mentioned herein and no other prior agreement or understanding shall be effective.

23. Notices.

23.1 All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by messenger or courier service or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notice purposes. Either Party may by written notice to the other specify a different address for notice purposes. A copy of all notices required or permitted to be given to Lessor or Lessee hereunder shall be concurrently transmitted to such persons or parties at such addresses as Lessor or Lessee may from time to time hereafter designate by written notice to the other.

23.2 Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the United States Postal Service or courier. If any notice is transmitted by facsimile transmission or similar means, the same shall be deemed served or delivered upon telephone confirmation of receipt of the transmission thereof, provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

24. Waivers. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. Regardless of Lessor's knowledge of a Default or Breach at the time of accepting rent, the acceptance of rent by Lessor shall not be a waiver of any preceding Default or Breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted. Any payment given Lessor by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment. See Addendum, (S)21.

25. Recording. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a short form memorandum of this Lease for recording purposes. The Party requesting recordation shall be responsible for payment of any fees or taxes applicable thereto.

26. No Right to Holdover. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of the Lease.

27. Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

29. Binding Effect; Choice of Law. This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. Subordination; Attornment; Non-Disturbance.

30.1 Subordination. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "Security Device"), now or hereafter placed by Lessor upon the real property of which the Premises are a part, to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof. Lessee agrees that the Lenders holding any such Security Device shall have no duty, liability or obligation to perform any of the obligations of Lessor under this Lease, but that in the event of Lessor's default with respect to any such obligation, Lessee will give any Lender whose name and address have been furnished Lessee in writing for such purpose notice of Lessor's default and allow such Lender thirty (30) days following receipt of such notice for the cure of said default before invoking any remedies Lessee may have by reason thereof. If any Lender shall elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device and shall give

written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 Attornment. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership, (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor, or (iii) be bound by prepayment of more than one (1) month's rent.

30.3 Non-Disturbance. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving assurance (a "non-disturbance agreement") from the Lender that Lessee's possession and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises.

30.4 Self-Executing. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any such subordination or non-subordination, attornment and/or non-disturbance agreement as is provided for herein.

31. Attorney's Fees. If any Party or Broker brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the Prevailing Party (as hereafter defined) or Broker in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorney's fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term "Prevailing Party" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorney's fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorney's fees reasonably incurred.

32. Lessor's Access; Showing Premises; Repairs. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times after reasonable notice for the purpose of showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are a part, as Lessor may reasonably deem necessary. Lessor may at any time during the last one hundred twenty (120) days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All such activities of Lessor shall be without abatement of rent or liability to Lessee.

33. Auctions. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. Signs. Lessee may, with Lessor's prior written consent, install (but not on the roof) such signs as are reasonably required to advertise Lessee's own business. The installation of any sign on the Premises by or for Lessee shall be subject to the provisions of Paragraph 7 (Maintenance, Repairs, Utility Installations, Trade Fixtures and Alterations).

35. Termination; Merger. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, Lessor shall, in the event of any such surrender, termination or cancellation, have the option to continue any one or all of any existing subtenancies. Lessor's failure within ten (10) days following any such event to make a written election to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. Consents.

(a) Except for Paragraph 33 hereof (Auctions) or as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably

withheld or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' or other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent pertaining to the presence or use of a Hazardous Substance, practice or storage tank, shall be paid by Lessee to Lessor upon receipt of an invoice and supporting documentation therefor. Lessor may, as a condition to considering any such request by Lessee, require that Lessee deposit with Lessor an amount of money (in addition to the Security Deposit held under Paragraph 5) reasonably calculated by Lessor to represent the cost Lessor will incur in considering and responding to Lessee's request. Except as otherwise provided, any unused portion of said deposit shall be refunded to Lessee without interest. Lessor's consent to any act, assignment of this Lease or subletting of the Premises by Lessee shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent.

(b) All conditions to Lessor's consent authorized by this Lease are acknowledged by Lessee as being reasonable. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given.

37. Guarantor.

37.1 The form of the guaranty to be executed by each such Guarantor shall be in the form approved by Lessor and Guarantor, and each said Guarantor shall have the obligations as provided in the Guaranty, and the obligation to provide the Tenancy Statement and information called for by Paragraph 16.

37.2 It shall constitute a Default of the Lessee under this Lease if any such Guarantor fails or refuses, upon reasonable request by Lessor to give (a) evidence of the due execution of the guaranty called for by this Lease, including the authority of the Guarantor (and of the party signing on Guarantor's behalf) to obligate such Guarantor on said guaranty, and including in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, together with a certificate of incumbency showing the signature of the persons authorized to sign on its behalf or (d) written confirmation that the guaranty is still in effect.

38. Quiet Possession. Upon payment by Lessee of the rent for the Premises and the observance and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

39. Options. See Addendum, (S)22.

39.1 Definition. As used in this Paragraph 39 the word "Option" has the following meaning: (a) the right to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other property of Lessor or the right of first offer to lease other property of Lessor; (c) the right to purchase the Premises, or the right of first refusal to purchase the Premises, or the right of first offer to purchase the Premises, or the right to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor, or the right of first offer to purchase other property of Lessor.

39.2 Options Personal To Original Lessee. Each Option granted to Lessee in this Lease is personal to the original Lessee named in Paragraph 1 hereof, and cannot be voluntarily or involuntarily assigned or exercised by any person or entity other than said original Lessee while the original Lessee is in full and actual possession of the Premises and without the intention of thereafter assigning or subletting. The Options, if any, herein granted to Lessee are not assignable, either as a part of an assignment of this Lease or separately or apart therefrom, and no Option may be separated from this Lease in any manner, by reservation or otherwise. See Addendum, (S)22.

39.3 Multiple Options. In the event that Lessee has any Multiple Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Options to extend or renew this Lease have been validly exercised.

39.4 Effect of Default on Options.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary: (i) during the period commencing with the giving of any notice of Default under

Paragraph 13.1 and continuing until the noticed Default is cured, or (ii) during the period of time any monetary obligation due Lessor from Lessee is unpaid, or (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessor has given to Lessee three (3) or more notices of Default under Paragraph 13.1, whether or not the Defaults are cured, during the twelve (12) month period immediately preceding the exercise of the Option, if such Default has, in fact, occurred.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due or (ii) Lessor gives to Lessee three (3) or more notices of Default under Paragraph 13.1 during any twelve (12) month period if such Defaults, in fact, occurred, whether or not the Defaults are cured, or (iii) Lessee commits a Breach of this Lease.

40. Multiple Buildings. If the Premises are part of a group of buildings controlled by Lessor, Lessee agrees that it will abide by, keep and observe reasonable rules and regulations which Lessor may make from time to time for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of such other buildings, and their invitees.

41. Security Measures. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. Reservations. Lessor reserves to itself the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights, and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee or increase Lessee's monetary obligation. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. Performance Under Protest. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under any provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

44. Authority. If either Party hereto is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after request by Lessor, deliver to Lessor evidence satisfactory to Lessor of such authority.

45. Conflict. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. Offer. Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to lease to Lessee. This Lease is not intended to be binding until executed by all Parties hereto.

47. Amendments. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. The parties shall amend this Lease from time to time to reflect any adjustments that are made to the Base Rent or other rent payable under this Lease.

48. Multiple Parties. Except as otherwise expressly provided herein, if more than one person or entity is named herein as either Lessor or Lessee the obligations of such Multiple Parties shall be the joint and several responsibility of all persons or entities named herein as such Lessor or Lessee.

See Addendum for additional provisions.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

IF THIS LEASE HAS BEEN FILLED IN, IT HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR HIS APPROVAL. FURTHER EXPERTS SHOULD BE CONSULTED TO EVALUATE THE CONDITION OF THE PROPERTY AS TO THE POSSIBLE PRESENCE OF ASBESTOS, STORAGE TANKS OR HAZARDOUS SUBSTANCES. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER(S) OR THEIR AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES; THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE. IF THE SUBJECT PROPERTY IS LOCATED IN A STATE OTHER THAN CALIFORNIA, AN ATTORNEY FROM THE STATE WHERE THE PROPERTY IS LOCATED SHOULD BE CONSULTED.

The parties hereto have executed this Lease at the place on the dates specified above to their respective signatures.

Executed at El Cajon on 12/26/96 by LESSOR: Techplex, L.P., A California Limited Partnership Its General Partner, Hamann Consolidated, Inc., A California Corporation	Executed at Iselin, NJ on 12/23/96 by LESSEE: Putter Properties, Inc., a Delaware corporation
By /s/ JEFFREY C. HAMANN Name Printed: Jeffrey C. Hamann Title: President	By /s/ RICHARD A. BUCCARELLI Name Printed: Richard A. Buccarelli Title: Vice President

By /s/ JEFFREY C. HAMANN
Name Printed: Gregg Hamann
Title: Secretary
Address: 475 West Bradley Avenue
El Cajon, California 92020
Tel. No. (619) 440-7424 Fax No. (619) 440-8914

NET Jeffrey C. Hamann has Attorney In Fact for Gregg Hamann.

ADDENDUM TO LEASE

BETWEEN

TECHPLEX, L.P.,
A California Limited Partnership

AND

PUTTER PROPERTIES, INC.,
a Delaware corporation

Dated December 20, 1996

TABLE OF CONTENTS

EXHIBITS

ADDENDUM TO LEASE

This ADDENDUM TO LEASE ("Addendum") is made by and between Techplex, L.P., a California limited partnership ("LESSOR"), and Putter Properties, Inc., a Delaware corporation ("LESSEE"), and is intended to supplement that certain Standard Industrial/Commercial Single-Tenant Lease Net between LESSOR and LESSEE dated December 20, 1996 ("Lease") to which this Addendum is annexed. If there is any inconsistency between this Addendum and the Lease, the terms of this Addendum shall supersede and control, provided that except as otherwise stated, references to the "Lease" mean and refer to the above referenced standard Lease as modified by this Addendum. LESSOR and LESSEE agree as follows:

1. Premises Description. The Premises presently consist of the land and all improvements located on the land depicted on Exhibit "1" annexed to this Addendum, including the "Building Shell" as described in section 6 of this Addendum, and, following LESSOR's completion of the "Tenant Improvements" as described in section 6 of this Addendum, the Tenant Improvements.

2. Base Rent Adjustment/Operating Expenses. The Base Rent for each subsequent year of the Lease during the Original Term following the initial year of the Lease shall be adjusted as provided in section 3 of this Addendum. In addition to payment of the Base Rent, LESSEE shall, from and after February 1, 1997, be responsible for payment of all "Operating Expenses" (as defined below), subject to the limitation provided in subsection 2.3 of this Addendum. The term "Operating Expenses" means the following expenses and costs of the ownership and operation of the Premises: (a) amounts payable for maintenance contracts required to be procured pursuant to Paragraph 7.1(b) of the Lease (but not the cost of repairs or replacements payable by LESSEE), (b) insurance required to be maintained by LESSOR or LESSEE under the Lease (exclusive of the insurance maintained by LESSEE under Paragraph 8.4 of the Lease), (c) Real Property Taxes, (d) a reasonable reserve for replacement of the roof, (e) assessments and dues payable to any association or other governing body established pursuant to any covenants, conditions or restrictions affecting the Premises as of the date of the Lease, (f) reimbursement to LESSOR of Carlsbad Community Facilities District costs, (g) a fire sprinkler monitoring contract if payable separate from the fire sprinkler maintenance contract described in Paragraph 7.1(b) of the Lease, (h) the Administrative Fee described in subsection 2.2 of this Addendum, and (i) the reasonable amount of other ordinary and necessary expenses and costs of operation of the Premises, which are customarily incurred in the operation of similarly situated real estate projects; provided, however, the term "Operating Expenses" does not include (i) any indebtedness secured by a mortgage, deed of trust or similar security interest granted by LESSOR and encumbering the Premises, or (ii) any other items of expense or cost which the terms of the Lease expressly require be paid or incurred by LESSEE, including all utility charges payable by LESSEE under Paragraph 11 of the Lease.

2.1 Method of Payment. From and after February 1, 1997, LESSEE shall pay to LESSOR monthly, as additional rent, an amount equal to 1/12 of the projected annual Operating Expenses. Such amount shall be due and payable concurrently with the payment of the applicable Base Rent. Prior to the beginning of each lease year, LESSOR will provide LESSEE an annual estimated Operating Budget ("Estimated Operating Budget"). Subject to LESSEE's payment of Operating Expenses as provided in this Addendum, LESSOR shall make prompt payment of the Operating Expenses. Any excess or deficit from the estimates shown in the Estimated Operating Budget will be credited or billed to LESSEE at the end of the applicable year and LESSOR shall concurrently furnish LESSEE with a detailed statement showing actual Operating Expenses. Any deficit will be payable as additional rent within ten (10) days of receipt of a final Operating Budget setting forth the actual expenditures for the applicable lease year and the deficit. Any excess shall be credited against the next payments of Operating Expenses due from LESSEE. A copy of the 1997 Estimated Operating Budget is attached to this Addendum as Exhibit 2; amounts of expense may vary in future years as the Premises ages. Promptly following request, LESSOR shall furnish LESSEE with such additional information as LESSEE may reasonably request with respect to such Operating Expenses.

2.2 LESSOR's Administrative Services. LESSOR agrees to provide certain administrative services to assist LESSEE in the performance of LESSEE's obligations under Paragraphs 7, 8.2, 8.3 and 10 of the Lease in consideration for LESSEE's monthly payment of an administrative fee to LESSOR of two percent (2%) of the Base Rent ("Administrative Fee"). Such Administrative Fee shall be payable as a part of the Operating Expenses payable by LESSEE. LESSOR's administrative services shall consist of the following: LESSOR shall procure, on behalf of LESSEE, maintenance contracts required to be procured by LESSEE under Paragraph 7.1(b) of the Lease, and shall otherwise procure bids and contract proposals from contractors when necessary for LESSEE's performance of its general repair obligations under Paragraph 7.1(a) of the Lease. Except with the prior written consent of LESSEE, major items of expense exceeding $10,000.00 shall be competitively bid and LESSOR shall not submit any contracts or proposals for any of such services to be performed by LESSOR or any affiliate of LESSOR, except to the extent such affiliation is disclosed to LESSEE and such contract is competitively priced. LESSOR shall not be liable for any acts or omissions of any such contractors, nor for LESSEE's default in failing to perform any obligation under the Lease, except to the extent of LESSOR's failure to pay any Operating Expense from funds previously provided by LESSEE for the payment of such Operating Expense, LESSOR's failure to perform its obligations under the Lease, or LESSOR's gross negligence or willful misconduct.

2.3 Monetary Limitation. Notwithstanding the preceding provisions, LESSOR agrees that during the Original Term, the maximum amount payable by LESSEE for Operating Expenses shall not exceed an amount equal to $4,946.25 monthly.

3. Base Rent. The Base Rent stated in Paragraph 1.5 of the Lease for the first year of the Lease as shown below, shall be adjusted at the beginning of the second year of the Lease and at the beginning of each year thereafter during the Original Term in accordance with the following schedule of Base Rent:

Year	Base Rent
1	$14,038.00
2	$17,761.00
3	$20,677.00
4	$20,841.00
5	$21,571.00
6	$22,326.00
7	$23,107.00
8	$23,915.00
9	$24,752.00
10	$25,617.00

4. Security Deposit. Notwithstanding any contrary provision in Paragraph 5 of the Lease, any unexpended portion of the Security Deposit shall be applied to the last month's Base Rent for the Original Term, or if LESSEE exercises any option to extend the term of the Lease, for the last month of the last extension period.

5. Broker Representation/Licensee Disclosure. LESSOR and LESSEE each warrant that: (a) they have dealt with no other real estate brokers in connection with this transaction except: CB Commercial Real Estate Group, Inc., who represents LESSOR and LESSEE; (b) that they were timely advised of such dual representation and have consented to such dual representation by Brokers; and (c) they have not and do not expect the Brokers to disclose to one party the confidential information of the other party. In addition, LESSEE acknowledges that it is aware that one or more principals or members of LESSOR may be licensed real estate brokers or other licensees, including David Onosko, and that such licensees are participating in this transaction as affiliates of LESSOR and have not undertaken to represent the interests of LESSOR.

6. Building Shell and Tenant Improvements. LESSOR, at its expense, has caused the completion of the construction of the Building Shell. The phrase "Building Shell" means the building improvements and related site improvements as shown on those certain plans and specifications prepared by Progressive Images, dated December 5, 1995 and consisting of 38

pages ("Building Shell Plans"), including (a) roofing, fascia, exterior walls, doors and windows, (b) footings and concrete floors, (c) "shell" fire sprinkler system in accordance with minimum code requirements, (d) conduits and pipes for telephone, electricity, water, fire sprinklers and sewage brought to "stub out" termination points in or above a perimeter wall of the Premises, (e) a main electrical termination panel for the Building, (f) paving and finish of parking areas, entrance areas and walkways, (g) landscaping as reasonably determined by LESSOR, and (h) site improvements consisting of street, gutters, sidewalks, curbs, storm drains and erosion control (construction period and permanent) as required to comply with governmental requirements; provided, however, the term "Building Shell" does not include completion of the mezzanine light weight concrete floor or the railings, walls or stairways for the mezzanine other than as required for governmental approval of LESSEE's occupancy of other areas of the Building Shell, provided LESSOR acknowledges that completion of such mezzanine improvements may be performed by LESSEE at a later date. LESSEE acknowledges that the "Building Shell" improvements have been completed and are approved by LESSEE; provided, however, the preceding approval is not intended to waive any warranties or other obligations of LESSOR.

6.1 Tenant Improvements. Subject to all requirements in this section 6, LESSOR shall diligently commence and pursue to completion the construction of the Tenant Improvements to the Premises in connection with LESSEE's initial occupancy of the Premises as provided in this section. The phrase "Tenant Improvements" means all improvements which are not a part of the Building Shell, as shown in the Tenant Improvement Plans (described below), including (a) partitions, walls, and doors, (b) all surface finishes, including wall coverings, paint, floor coverings, suspended ceilings and other similar items, (c) duct work, heat pumps, vents, diffusers, terminal boxes and accessories for completion of heating, ventilation and air conditioning systems within the Premises, (d) electrical distribution systems (including panels, subpanels, wires and outlets), lighting fixtures, outlets, switches and other electrical work to be installed in the Premises, but excluding any additional or special electrical requirements for the equipment room/machine shop (e) plumbing lines, fixtures and accessories, (f) all fire and life safety control systems such as fire walls and fire alarms (including piping, wiring and accessories) to be located in the Premises, and fire sprinklers and lines attributable to the Tenant Improvements and/or LESSEE's fixtures, furnishing or equipment, (g) improvements required for compliance with Title 24, and (h) such other improvements shown on the "Tenant Improvement Plans" (as defined below); provided, however LESSEE's trade fixtures, equipment and personal property (including telephone systems and cabling, computer systems and network cabling, chairs, tables, furniture and other equipment used in LESSEE's business) shall not be considered part of the Tenant Improvements regardless of whether shown on the Tenant Improvement Plans. The construction of the Tenant Improvements shall be carried out without Material Deviation (as defined below) from the Tenant Improvement Plans, in a good and workmanlike manner using materials as described in the Specifications (as described below), and in accordance with Applicable Law. LESSEE will cause the Architect to submit the Tenant Improvement Plans for government plan checking and for issuance of a building permit (the "Building Permit") promptly following the execution of this Lease. LESSOR shall cause the Contractor to cause the Substantial Completion (as defined below) of the Tenant Improvements on or before the "Scheduled Completion Date" as provided in subsection 6.1.4 below. Notwithstanding the Substantial Completion of the Tenant Improvements, LESSOR shall remain responsible for causing the completion of any corrective work or "punch list" required to fully complete the Tenant Improvements in a good and professional workmanlike manner.

6.1.1 Design of Tenant Improvements. LESSOR has approved the plans prepared by Smith Consulting Architects ("Architect"), a list of which is annexed to this Addendum as Exhibit "3" ("Tenant Improvement Plans"), which Tenant Improvement Plans also include specifications describing the quality or category of materials to be utilized in the construction of the Tenant Improvements ("Specifications"); a copy of the Specifications is annexed to this Addendum as Exhibit "4." LESSEE will have the Architect submit the Tenant Improvement Plans for government plan checking and for issuance of a building permit (the "Building Permit"). The Tenant Improvement Plans and Specifications shall be subject to any changes required by governmental authorities; provided, however, LESSOR and LESSEE shall have the right to approve any changes to the Tenant Improvement Plans or Specifications requested by such governmental authorities, whether during such plan check or during the course of construction ("Government Change"), and LESSOR and LESSEE agree not to unreasonably

withhold such approval. LESSOR shall cause the Contractor to complete the Tenant Improvements in accordance with the Tenant Improvement Plans and Specifications, without Material Deviation. The term "Material Deviation" means a change, modification or deviation other than (a) any change, modification or deviation constituting a Government Change or change requested by LESSEE, (b) minor deviations in the location or dimensions of walls, windows doors, electrical outlets and similar improvements, or (c) any other change, modification or deviation approved by LESSEE, which approval will not be unreasonably withheld.

6.1.2 Approval of Contractor. LESSOR and LESSEE hereby approve CSI General Contractors as the contractor ("Contractor") for construction of the Tenant Improvements. LESSOR shall not permit or otherwise cause any other person or entity to act as the general contractor for construction of the Tenant Improvements, except in the event of a termination of the general contract with Contractor on account of the default of Contractor. In the event of any such termination, LESSOR shall have the right to reasonably select an alternate licensed, general contractor to complete the construction so long as such replacement contractor is experienced in the construction of commercial tenant improvements and is not affiliated with LESSOR.

6.1.3 "Substantial Completion" Defined. The term "Substantial Completion" means the date upon which LESSOR satisfies all of the following requirements: (a) the construction of the Tenant Improvements is substantially completed in accordance with the Tenant Improvement Plans and Specifications as modified only by any changes requested by LESSEE or Government Changes, subject only to minor corrective work which does not affect or limit LESSEE's use of the Premises; (b) LESSOR has procured a certificate of occupancy (whether temporary or permanent) or other applicable permit permitting LESSEE's immediate occupancy of the Premises and the use of the Premises for the conduct of LESSEE's business; and (c) LESSOR has given LESSEE written notice stating that such Substantial Completion has occurred and that the Premises are available for LESSEE's immediate possession and occupancy ("Notice of Possession").

6.1.4 Time for Substantial Completion. LESSOR shall cause Contractor to diligently pursue the construction and cause the Substantial Completion of the Tenant Improvements on or before a date which is no later than forty-five (45) days following the date of LESSEE's delivery of the Building Permit to LESSOR ("Scheduled Completion Date"); provided, however, the Scheduled Completion Date shall be extended if Substantial Completion is delayed on account of (a) changes to the approved Tenant Improvement Plans requested by LESSEE, including time expended in obtaining fixed, price quotations for any changed work as required under subsection 6.1.7 of this Addendum or delays in obtaining LESSEE's approval of any Government Changes as provided in subsection 6.1.1 of this Addendum, (b) Government Changes, (c) delays of LESSEE in paying the amount of any Tenant Improvement Costs payable by LESSEE, or (d) fire, earthquake or other causalities, inclement weather conditions, delays encountered in processing governmental approvals or inspections or other governmental action which prevents or impedes the orderly progress of construction, delays encountered as a result of the discovery of any unknown or concealed conditions affecting the Premises, delays caused by general area wide labor or material shortages or labor disputes (such as strikes or lock-outs), or any other causes beyond the reasonable control of LESSOR or Contractor. If such delays are encountered, the Scheduled Completion Date shall be extended but only for the number of days the delaying event exists and prevents Contractor from proceeding with the work. The extension of the Scheduled Completion Date pursuant to this subsection shall not change or delay the date for LESSEE to commence payment of the Base Rent, Operating Expenses or other charges payable by LESSEE. Except for excused delays described in the preceding provisions, if Substantial Completion is delayed beyond the Scheduled Completion Date, the following provisions shall apply: (i) if the delay does not exceed thirty (30) days, LESSEE shall be credited with two (2) free days of Base Rent for each one (1) day Substantial Completion is so delayed, with such credits to be applied to the Base Rent next becoming due; and (ii) if the delay exceeds thirty (30) days, then LESSEE at its option, shall have the right to either (aa) continue to accumulate the two (2) days free Base Rent credit for each one (1) day of additional delay and apply such credit to Base Rent next becoming due, or (bb) terminate the Lease by giving written notice of such election to LESSOR, which notice shall effectively terminate the Lease upon the

expiration of ten (10) days following delivery of the notice, unless LESSOR has caused the Substantial Completion prior to the expiration of such ten (10) day period, in which event the termination notice shall not become effective and this Lease shall continue in full force and effect, provided that LESSEE shall be entitled to the accumulation and application of the free Base Rent credit until such Substantial Completion and LESSEE shall not be required to pay Operating Expenses during any period of Base Rent credit accumulation. If the Lease is terminated by LESSEE pursuant to the preceding provision, LESSOR agrees to reimburse LESSEE for LESSEE's contributions to the Tenant Improvement Costs described in subsections 6.1.5 and 6.1.7 of this Addendum, the Security Deposit and any rentals previously paid by LESSEE within thirty (30) days of such termination; provided, however, LESSOR shall have no other liability whatsoever to LESSEE on account of the failure to timely deliver the Premises.

6.1.5 Payment of Tenant Improvement Costs. The "Tenant Improvement Costs" (as defined below) shall be allocated between LESSOR and LESSEE in the manner hereinafter set forth. Except as otherwise provided, LESSOR shall be responsible for payment of the amount of $225,000 towards the Tenant Improvement Costs and LESSEE shall be responsible for payment of the amount of $184,000 ("LESSEE's Initial Contribution") towards the Tenant Improvement Costs; provided, however, LESSEE shall also be solely responsible for payment of all fees and costs payable to any design professionals, such as architects and engineers, in connection with the preparation of or processing for permit of the Tenant Improvement Plans and Specifications and/or any other services concerning or relating to the design of the Tenant Improvements. Within five (5) days from the execution of this Lease, LESSEE shall pay LESSEE's Initial Contribution to a fund control account maintained at Bank of Commerce ("Lender"), and the proceeds of LESSEE's Initial Contribution shall be disbursed from such account along with the proceeds of LESSOR's loan from Lender as the construction of the Tenant Improvements progresses. LESSOR and LESSEE shall each be responsible for payment of fifty percent (50%) of any Tenant Improvement Costs in excess of $409,000 up to a maximum of $434,000. LESSEE agrees to pay to the Lender's fund control any additional amount due from LESSEE under the preceding provision within ten (10) days following notice from LESSOR requesting such additional funds together with Contractor's invoices and other documentation reasonably requested by LESSEE to evidence such costs. In the event the Tenant Improvement Costs exceed $434,000, LESSOR shall be solely responsible for such excess, except as provided in subsection 6.1.7 below. If, following completion of the Tenant Improvements, the Tenant Improvement Costs are less than $409,000, LESSOR shall reimburse LESSEE in the amount of 50% of the savings within forty-five (45) days after Substantial Completion.

6.1.6 "Tenant Improvement Costs" Defined. The phrase "Tenant Improvement Costs" means all direct and indirect costs of furnishing, constructing and installing the Tenant Improvements, including, without limitation, (a) any reasonable out-of-pocket costs for design and/or architectural services incurred by LESSOR in reviewing any changes to the Tenant Improvement Plans and/or in connection with government inspections of the construction, but not any costs or expenses incurred by LESSEE for such design and/or architectural services, (b) government permit costs applicable to the Tenant Improvements, (c) amounts payable to the contractor for overhead/profit, job site supervision, cleanup, trash and janitorial services, (d) the actual 'hard costs" of construction of the Tenant Improvements, and (e) any and all other expenses and costs of whatever kind or nature incurred by LESSOR in connection with the Tenant Improvements; provided, however, the term "Tenant Improvement Costs" shall not include any fees of LESSOR or any affiliated entity in connection with construction of the Tenant Improvements.

6.1.7 Change Orders. LESSEE shall have the right to issue change orders to change or eliminate any item or detail contained in the Tenant Improvement Plans and/or Specifications and/or to substitute and/or add other items or details not shown on the Tenant Improvement Plans and/or Specifications, subject to obtaining LESSOR's approval, which approval shall not be unreasonably withheld. LESSEE will be responsible for payment of any excess Tenant Improvement Costs resulting from any changes to the Work requested by LESSEE or necessitated by government requirements, following LESSOR's approval of the Tenant Improvement Plans. The cost of any such change order which results in the Tenant Improvement Costs exceeding $409,000 shall be borne by LESSEE to the extent of the amount

so in excess. LESSOR shall have no right to issue change orders. Any such changes shall be subject to LESSOR's approval. LESSOR shall obtain from the Contractor a fixed price quotation for completion of the change and provide such quotation to LESSEE. LESSEE shall deposit funds with LESSOR to pay such costs within ten (10) days following notice from LESSOR of the Contractor's quotation of the added cost for any change. LESSOR shall make a refund to LESSEE for any excess payment for changes to the extent that the total Tenant Improvement Costs are less than $409,000.

6.1.8 Reports and Final Reconciliation. During the course of construction of the Tenant Improvements, LESSEE, upon reasonable request and during LESSOR's regular business hours, shall be entitled to inspect, review and copy invoices, reports or other documentation received by LESSOR from Contractor regarding the progress of Construction and the amount of Tenant Improvement Costs being incurred. Following completion of the construction of the Tenant Improvements, LESSOR shall deliver to LESSEE a final reconciliation report showing the total of the Tenant Improvement Costs.

6.1.9 Dispute Resolution. In the event that LESSEE reasonably determines that any portion of the Tenant Improvement Costs has not been properly accounted for, LESSEE shall give LESSOR written notice of such determination, which notice shall include a detailed explanation of the reason(s) for such determination, within thirty (30) days following the receipt of LESSOR's final accounting. In the event that LESSEE does not give such a written notice within such thirty (30) day period, LESSEE shall be deemed to have conclusively approved LESSOR's final accounting. Any dispute concerning the Tenant Improvement Costs shall be subject to Arbitration as provided in section 23 of this Addendum. Pending the resolution of any such dispute, LESSEE shall pay the amount invoiced by LESSOR, and in the event LESSEE prevails in the Arbitration, LESSEE shall be entitled to a credit against the payment of Base Rent next becoming due in an amount determined in the Arbitration. Any Arbitration must be commenced by LESSEE within ninety (90) days from the delivery of LESSOR's final accounting and, if LESSEE fails to timely commence such Arbitration, LESSEE shall be deemed to have conclusively approved LESSOR's final accounting.

7. LESSOR's Warranty Concerning the Condition of the Premises.

Notwithstanding the provisions of Paragraph 2.2 of the Lease, LESSOR's warranty in Paragraph 2.2 of the Lease applies only to the improvements included in the Building Shell, and LESSOR is not making any warranty concerning the physical condition of the Tenant Improvements nor the suitability of such Tenant Improvements for use by LESSEE. Except as provided in this section and in sections 8, 10 and 11 of this Addendum, LESSEE is accepting the Premises in an "AS IS, WHERE IS" condition without representation or warranty by LESSOR. If LESSEE does not give LESSOR written notice of a non-compliance with the warranty provided in Paragraph 2.2 of the Lease within one (1) year after the Scheduled Completion Date, correction of any non-compliance shall be the obligation of LESSEE, at LESSEE's sole cost and expense.

7.1 Hazardous Materials. Except as described in the reports identified in this section, LESSOR warrants to LESSEE that LESSOR has no knowledge of the existence of Hazardous Substances in, on or about the Premises in violation of any Applicable Laws. LESSEE acknowledges and agrees that LESSOR has disclosed to LESSEE that the sole basis of LESSOR's knowledge concerning such Hazardous Substances is that certain "Environment Site Assessment Carlsbad Airport Centre Phase II Expansion Property, Carlsbad, California" report prepared by Woodward-Clyde, dated April, 1993, that certain "Groundwater Monitoring Well Abandonment" report by Woodward-Clyde, dated October 7, 1994, and that certain "Site Assessment and Subsurface Investigation Report" prepared by Woodward-Clyde Consultants, dated September 26, 1991; copies of such reports have been furnished to LESSEE. LESSOR shall be under no obligation to conduct any additional investigation or further inquiry concerning Hazardous Substances in connection with entering into this Lease and making the warranty provided in this section. LESSOR further acknowledges and agrees that LESSEE shall not be liable to LESSOR for the costs to remedy or cleanup any Hazardous Substances migrating or flowing on to the Premises from outside of the Premises, including, without limitation, any off-Premises releases affecting ground water beneath the Premises so long as such off-Premises release or discharge was not caused by LESSEE or its agents, contractors or invitees. Subject to the limitations described below, LESSOR shall indemnify, defend and hold harmless LESSEE

from and against any out-of-pocket loss, liability, claim, expense (including reasonable attorneys' fees and court costs) or damage resulting from any Third Party Claim (as defined below) which is based on the existence of any Hazardous Substance contamination in, under or about the Premises (including groundwater) as of the Commencement Date of the Lease or any Hazardous Substance contamination thereafter migrating in, under or about the Premises (including groundwater) as a result of its proximity to the former landfill described in the reports identified in this section, but only to the extent any such loss, liability, claim and/or expense first exceeds in aggregate the sum of $25,000.00. The phrase "Third Party Claim" means any lawsuit, administrative action or other proceeding commenced and maintained by any governmental agency or other third person or entity who is not a partner, principal, agent, employee or affiliate of LESSEE. LESSEE shall promptly give LESSOR notice of any such Third Party Claim. LESSOR's obligation of indemnification includes the obligation to defend the Third Party Claims through qualified legal counsel reasonably satisfactory to LESSEE, after LESSEE has first paid losses, liabilities, costs and/or expenses in excess of $25,000.00 on account of such Third Party Claim, provided LESSEE need not have first paid any such Third Party Claim in order to be so indemnified. LESSEE shall cooperate with LESSOR in such defense.

8. LESSOR's Warranty of Compliance with Building Code and Restrictions.

Notwithstanding the provisions of Paragraph 2.3 of the Lease, LESSOR's warranty applies only to the improvements included in the Building Shell, and LESSOR is not making any warranty concerning the compliance of the Tenant Improvements with such codes, regulations, ordinances and restrictions. LESSOR's warranty includes compliance of the Building Shell with the Americans With Disabilities Act ("ADA"). In the event that future changes in the ADA having general application require any modifications or improvements to the Building Shell, LESSOR shall be responsible, at its expense, for completing such modifications or improvements; provided, however, LESSEE, not LESSOR, shall be responsible for any modifications or improvements: (a) affecting the Tenant Improvements or other alterations made by LESSEE; or (b) resulting from special ADA requirements resulting from any unusual use or employment practices of LESSEE which are not ordinary and customary to the use or practices of tenants generally in similarly situated real estate projects. Except with respect to LESSOR's responsibility for future compliance of the Building Shell with future ADA requirements, if LESSEE does not give LESSOR written notice of a non-compliance with the warranty provided in Paragraph 2.3 of the Lease within three (3) years after the Scheduled Completion Date, correction of any non-compliance shall be the obligation of LESSEE, at LESSEE's sole cost and expense.

9. Delivery of Possession. LESSOR shall deliver possession of the
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Premises to LESSEE on the date of Substantial Completion. LESSEE shall accept possession of the Premises upon the Substantial Completion of the Tenant Improvements. During the last fourteen (14) days immediately preceding the expected date for Substantial Completion, LESSEE shall have the right to enter the Premises prior to completion of the Tenant Improvements in order for LESSEE to perform work required by LESSEE to make the Premises ready for its use and occupancy; provided, however, (a) LESSEE requests in writing, no later than ten (10) days prior to the requested date of entry, that LESSOR procure the liability insurance coverage required under Paragraph 8.2 of the Lease and LESSEE pays for the cost of such insurance; and (b) any such work shall be carried out in a manner and method which does not interfere with or delay the construction of the Tenant Improvements, LESSOR shall give LESSEE notice of the expected date of Substantial Completion no later than twenty (20) days prior to the expected date of Substantial Completion.

10. Use Warranty. Notwithstanding any other provision of this Lease to the
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contrary, LESSOR hereby warrants to LESSEE that as of the Substantial Completion of the Premises, applicable zoning and land use laws will generally permit use of the Premises for office, research, development and manufacture of golf clubs, provided that LESSEE's specific method of use of the Premises is in accordance with all other Applicable Laws and such warranty shall not be deemed to be a warranty that LESSEE is permitted to use the Premises exclusively for only one of the activities described, such as office use. Any action or claim of LESSEE for breach of the preceding warranty must be commenced within one (1) year from the Substantial Completion Date or it shall be deemed waived.

11. LESSOR's Maintenance Obligations. Notwithstanding the provisions of Paragraphs 2.2, 2.3, 7.1 and 7.2 of the Lease, provisions of the Lease to the contrary and except as provided in subsections 11.1 and 11.2 of this Addendum, LESSOR, not LESSEE, shall be responsible for the maintenance and repair of certain LESSOR Maintained Improvements. The phrase "LESSOR Maintained Improvements" refers to and is limited to: (a) the structural elements of the Building Shell, being the structural portion of the exterior Building Shell walls, foundations and structural roof; (b) the non-structural roof membrane (exclusive of roof drainage system, including gutters and downspouts, which shall be maintained by LESSEE); and (c) Building Shell electrical, sewer and water utilities; provided, however, and notwithstanding any other provision, LESSOR's obligation to maintain the non-structural roof membrane shall only apply during the Original Term.

11.1 Limitations on LESSOR's Responsibility. LESSOR's obligation for repair and maintenance of the LESSOR Maintained Improvements is limited to maintaining the LESSOR Maintained Improvements in a commercially reasonable order, condition and repair and sound structural condition, and LESSEE, not LESSOR, shall be responsible for any painting or other resurfacing of the exterior surfaces of exterior or interior walls of LESSOR Maintained Improvements in order to maintain such improvements in a neat and attractive appearance. LESSOR shall not be in default of its repair and maintenance obligation if LESSOR performs the required repairs or maintenance within thirty (30) days after written notice from LESSEE of the need for such repairs or maintenance. If, due to the nature of a particular repair or maintenance obligation, more than thirty (30) days is reasonably required to complete such repairs or maintenance, LESSOR shall not be in default so long as LESSOR commences work within such thirty (30) day period and diligently prosecutes the work to completion. No abatement of rent and no liability of LESSOR shall result for any injury to or interference with LESSEE's business from the making of or failure to make any repairs or replacements except for LESSOR's gross negligence or willful misconduct. Except as otherwise provided herein, LESSEE waives and releases its rights, if any, to make repair at LESSOR's expense, under California Civil Code Sections 1941-42 or any similar law, statute or ordinance in effect now or in the future. Notwithstanding the foregoing, if any such repair and or maintenance obligation of LESSOR constitutes an emergency situation involving property damage or personal injury, LESSOR shall make such repair immediately following notice from LESSEE. If LESSOR cannot perform such repair or maintenance obligation in time to mitigate any such property damage or personal injury, LESSEE shall have the right to perform same and LESSOR shall reimburse LESSEE for the reasonable, out-of-pocket cost thereof within thirty (30) days from the receipt of an invoice from LESSEE, which invoice shall include backup information substantiating the expenses. In the case of such emergency situations, the notice given to LESSOR may be made by telephonic communication so long as LESSEE continues with its best efforts to contact a responsible employee or agent of LESSOR or LESSOR's designated manager until successful and LESSEE simultaneously sends a facsimile transmission to LESSOR notifying LESSOR of the emergency.

11.2 Exclusions. The provisions of Paragraph 9 (damage and destruction) and Paragraph 14 (condemnation) of the Lease, and not this section 11 of this Addendum, shall control in the event of any damage, destruction or condemnation of any of the LESSOR Maintained Improvements. In addition, LESSOR shall have no responsibility to maintain or repair such LESSOR Maintained Improvements in the following circumstances:

(a) repairs or replacements are necessitated by LESSEE's failure to promptly perform its repair and maintenance obligations of other improvements;

(b) repairs or replacements are necessitated by any intentional or negligent act or omission of LESSEE, its employees, agents or contractors, including misuse or abuse of the LESSOR Maintained Improvements, and LESSEE acknowledges that the entry upon or placing objects on any portion of the roof shall constitute misuse;

(c) to the extent that LESSEE makes any modification or alteration of any of the LESSOR Maintained Improvements, with or without the consent of LESSOR, including, without limitation, penetrations of the roof or structural elements, and LESSEE shall be deemed to have assumed full responsibility for the repair and maintenance of any

improvements so modified, altered or added, but only to the extent any such repair or maintenance results from LESSEE's modification or alteration;

(d) repairs or replacements are necessitated by LESSEE exceeding the designed load bearing capacities of the walls, foundations, floor slab or other structural elements;

(e) repairs only to remove blockages of the Building Shell plumbing and sewer lines resulting from the misuse or from ordinary and customary and usual blockages and not from any defect or deficiency in such improvements; or

(f) repairs or replacement to the Building Shell electrical system resulting from any unusual or intensive power demand requirements of LESSEE, or on account of any power fluctuation or other malfunction attributable to equipment or other electrical system improvements to be maintained by LESSEE.

12. Indemnification. Except for LESSEE's negligence, LESSOR shall indemnify, protect, defend and hold harmless LESSEE and its agents from and against any and all claims, damages, costs, liens, judgments, penalties, attorneys' fees, expenses and/or liabilities attributable to personal injury or property damage and/or arising out of or resulting from any act, omission or neglect of LESSOR, its agents, contractors or employees while present on the Premises in connection with LESSOR's exercise of any of its rights to access to the Premises granted in this Lease. The foregoing shall include, but not be limited to, the defense or pursuit of any claim or any action or proceeding involved therein, and whether or not (in the case of claims made against LESSOR) litigated and/or reduced to judgment, and whether well founded or not. In case any action or proceeding be brought against LESSEE by reason of any of the foregoing matters, LESSOR upon notice from LESSEE shall defend the same at LESSOR's expense by counsel reasonably satisfactory to LESSEE and LESSEE shall cooperate with LESSOR in such defense. LESSEE need not have first paid any such claim in order to be so indemnified.

13. Additional Provisions Regarding Alteration Removal. Notwithstanding any contrary provision in Paragraph 7.4(b) of the Lease, if LESSOR expressly consents to any Alteration or Utility Installations constructed or installed by LESSEE, LESSOR shall notify LESSEE at the time of giving such consent whether or not LESSOR will require the removal of the Alteration or Utility Installation upon expiration of the Lease, and LESSOR's failure to so notify LESSEE shall constitute a waiver of LESSOR's right to require LESSEE to remove such Alteration or Utility Installation upon expiration of the Lease. In addition, and notwithstanding any contrary provisions, LESSEE shall not remove and LESSOR shall be entitled to retain any computer network, telephone or security system cabling or conduits placed within the walls, ceilings or floors of the Premises.

14. Property Insurance/Earthquake. Notwithstanding the provision in Paragraph 8.3(a) of the Lease requiring earthquake coverage if requested by LESSOR's lender, LESSOR agrees that LESSEE shall not be responsible for the cost of earthquake insurance coverage to the extent any coverage requested by LESSOR's lender is not consistent with the prevailing practices of institutional lenders making loans for similarly situated commercial real estate developments in the same locale and seismic zone.

15. Additional Provision Concerning Damage or Destruction. This section includes provisions that modify and/or supplement the provisions of Paragraph 9 of the Lease concerning damage or destruction of the Premises. Except as expressly set forth in subsections 15.1 through 15.4 of this Addendum, the provisions of Paragraph 9 of the Lease shall be enforced in accordance with their terms.

15.1 Partial Damage-Uninsured Loss. LESSOR agrees that LESSOR's right to terminate the Lease under Paragraph 9.3 of the Lease on account of an uninsured loss shall not apply unless the aggregate cost and expense of repairing and restoring the Premises exceeds One Hundred Thousand Dollars ($100,000.00), and LESSOR shall cause such repair and restoration to be completed to the extent required in Paragraph 9.3 of the Lease. If LESSOR elects to exercise such right of termination and LESSEE elects to exercise its right under Paragraph 9.3 of

the Lease to complete such repairs at its expense, LESSEE shall only be responsible for the repair or replacement costs in excess of One Hundred Thousand Dollars ($100,000.00), and LESSOR shall be responsible for payment of such costs up to a maximum of One Hundred Thousand Dollars ($100,000.00).

15.2 Damage Near End of Term. LESSOR agrees that LESSEE shall have the same right to terminate the Lease during the last six (6) months of the term of the Lease as provided to LESSOR under Paragraph 9.5 of the Lease, except in the event such damage was caused by LESSEE, in which event LESSEE shall not have the right to terminate the Lease.

15.3 Abatement of Rent. The requirement in Paragraph 9.6(a) of the Lease for LESSEE to continue to perform its obligations under the Lease other than those monetary obligations subject to abatement under Paragraph 9.6(a) of the Lease, shall not apply to the extent that LESSEE's ability to perform any such other obligations is impaired by the damage or destruction of the Premises; provided, however, the preceding exception shall not apply to any monetary obligations. In addition, the waiver of LESSEE of any claim against LESSOR for any damage suffered by reason of such repair or restoration shall not apply to the extent such damage is solely caused by the gross negligence or willful misconduct of LESSOR, or its agents, contractors or employees.

15.4 Termination-Advance Payments. In addition to any entitlement of LESSEE to receive any advance payment under Paragraph 9.8 of the Lease, in the event of the termination of the Lease pursuant to Paragraph 9 of the Lease during the first five (5) years of the Original Term, LESSEE shall be entitled to receive a portion of insurance proceeds actually received by LESSOR on account of the unamortized cost of the Tenant Improvements, with such portion equaling a percentage determined by (a) dividing the aggregate amount of the Tenant Improvement Costs paid by LESSEE, (b) by the total Tenant Improvement Costs paid by both LESSOR and LESSEE.

16. Additional Provision Concerning Assignment and Subletting. This section includes provisions that modify and/or supplement the provisions of Paragraph 12 of the Lease concerning the assignment and subletting of the Premises. Except as expressly set forth in subsections 16.1 through 16.4 of this Addendum, the provisions of Paragraph 16 of the Lease shall be enforced in accordance with their terms.

16.1 LESSOR's Consent/Affiliate Transaction. Subject to compliance with Paragraph 12.2 of the Lease, LESSOR's consent shall not be required with respect to an Affiliate Transaction and the provisions of Paragraph 12.1(d) of the Lease shall not apply to an Affiliate Transaction. The term "Affiliate Transaction' means (i) any assignment resulting from a bona fide consolidation, merger or purchase of substantially all of LESSEE's assets, or (ii) any assignment or sublease to an entity controlling, controlled by or under common control with LESSEE, or an entity which acquires, is acquired by, or merges with, LESSEE; provided, however, any such assignment shall not release or otherwise affect LESSEE's liability for its obligations under the Lease. LESSOR agrees that LESSEE's failure to use or occupy all or any portion of the Premises shall not constitute a default. Further and notwithstanding anything to the contrary contained herein, LESSOR acknowledges and agrees that the Premises may be occupied by one or both Guarantors, companies affiliated with LESSEE, and LESSOR consents to such occupancy. For purposes of determining whether a transaction is an "Affiliate Transaction," references to "LESSEE" in this section shall also be deemed to include each Guarantor.

16.2 Exception to Consent For Certain Subletting. Notwithstanding any other provision in Paragraph 12 of the Lease, LESSOR's consent to a sublease shall not be required and LESSOR shall not have the right to adjust the rental under Paragraph 12.1(d) of the Lease so long as all of the following conditions are and remain satisfied: (a) the sublease is for a portion of the Premises constituting less than fifty percent (50%) of the total rentable square feet of the Premises; (b) LESSEE continues to occupy the remaining portions of the Premises; and (c) LESSEE is not otherwise in Breach of this Lease.

16.3 Assignee's Assumption. With respect to the obligation under Paragraph 12.2(a) for any assignee to assume the obligations of LESSEE under the Lease, such obligation is

clarified to provide that such assumption only applies to any accrued or unperformed obligations existing as of the date of the assignment and any future obligations accruing on and after the date of the assignment.

16.4 Rent Adjustment Upon Assignment or Sublease. Subject to all other provisions of Paragraph 12 of the Lease and except in the case of an Affiliate Transaction, if LESSEE subleases or assigns the Premises (regardless of whether such sublease or assignment is consented to by LESSOR), LESSEE shall pay to LESSOR, as additional rental due under this Lease, at LESSOR's option, the following amounts: (a) in the case of an assignment, LESSOR shall be entitled to receive an amount equal to fifty percent (50%) of the total value of the consideration received by LESSEE on account of such assignment, less an amount equal to any real estate commissions payable by LESSEE on account of the assignment of this Lease, which amount shall be payable within five (5) days from the date(s) as and when LESSEE receives such consideration; and (b) in the case of a sublease, an amount equal to fifty percent (50%) of the Excess Rental payable by any subtenant on account of such sublease less the costs of any real estate commissions payable by LESSEE. The term "Excess Rental" means the rent or other consideration received by LESSEE from the subtenant in excess of the amount of Base Rent, additional rent and other charges payable by LESSEE under this Lease. In no event shall this provision be construed or applied to reduce the Base Rent or other charges payable by LESSEE under this Lease, nor modify, waive or otherwise affect LESSOR's entitlement to increase the rentals payable under this Lease pursuant to Paragraph 12.1(d) of the Lease in the event of an assignment or subletting without the consent of LESSOR.

16.5 Presumption of Reasonableness. To the extent that the Lease provides for LESSOR's reasonable consent to an assignment of the Lease, LESSEE acknowledges and agrees that LESSOR shall be conclusively deemed to have reasonably withheld such consent if (a) the Net Worth of the proposed assignee does not exceed One Million Dollars ($1,000,000.00) as evidenced by financial statements conforming to the requirements of section 16.6 of the Lease, or (b) the assignee's use of the Premises would increase the risk of contamination of any Hazardous Substance from the risk presented by LESSEE's use of the Premises as determined by Dames & Moore, or such other qualified environmental consultant as LESSOR and LESSEE may reasonably approve if Dames & Moore decline to make such determination. LESSEE shall be responsible for the fees of such consultant. Nothing in this section shall be construed or applied to restrict LESSOR from withholding its consent for other reasonable grounds, and this provision is included solely to provide LESSOR the benefit of the conclusive presumption with respect to one or both of the above described conditions.

16.6 Time For Consent. LESSOR shall give LESSEE written notice of its consent or refusal to consent to a proposed assignment no later than thirty (30) days following receipt from LESSEE of the last of the Transfer Documentation and LESSEE's payment under Paragraph 12.2(e) of the Lease ("LESSOR's Notice"). The term "Transfer Documentation" means and includes the following documentation, which shall be certified in writing as true, correct and complete by the assignee: (a) the name, address, telephone number and responsible representative of the assignee; (b) financial statements, prepared by a certified public accountant or equivalent, for the last three (3) years of assignee's operation, including balance sheet, income statements and any other statements prepared in the ordinary course of assignee's operations; (c) written reports, government filings and other relevant documentation, if any, describing the extent of the use of Hazardous Substances in assignee's general business operations, and, if different, the use of the Premises proposed by assignee; and (d) all written contracts and agreements, including lease assignments, signed between LESSEE (or any of its affiliates) and the assignee relating to or in any way concerning the assignment or any contemporaneous transaction, which contracts and agreements must evidence that the assignment is subject only to the condition or contingency of LESSOR's consent. If LESSOR does not timely give LESSOR's Notice, LESSOR shall be deemed to have given its consent to the assignment as disclosed in the Transfer Documentation.

17. Additional Provision Concerning Default/Breach/Remedies. This section includes provisions that modify and/or supplement the provisions of Paragraph 13 of the Lease concerning a Default and Breach and remedies. Except as expressly set forth in subsections 17.1

through 17.3 of this Addendum, the provisions of Paragraph 13 of the Lease shall be enforced in accordance with their terms.

17.1 Limited Waiver of Costs. LESSOR agrees to waive the charges for preparation of a notice of Default in the following circumstances: (a) it is determined that a Default, in fact, did not occur; or (b) the first Default occurring during any rolling twelve (12) month period other than a Default arising on account of the failure to pay Base Rent or any other monetary charge.

17.2 Documentation Requirements. Except as expressly otherwise provided in this Lease, the failure by LESSEE to provide LESSOR with reasonable written evidence (in duly executed original form, if applicable) of (i) a Tenancy Statement required pursuant to Paragraphs 16 or 37 of the Lease, (ii) the execution of any document requested under Paragraph 42 (easements) of the Lease, or (iii) the subordination or non-subordination of this Lease as provided in Paragraph 30 of the Lease, where such failure continues for a period of ten (10) days following written notice by or on behalf of LESSOR to LESSEE, shall constitute a Breach. Except as expressly otherwise provided in this Lease, the failure by LESSEE to provide LESSOR with reasonable written evidence (in duly executed original form, if applicable) of (aa) compliance with Applicable Law as required under Paragraph 6.3 of the Lease, (bb) the rescission of an unauthorized assignment or subletting of the Premises under Paragraph 12.1(b) of the Lease, or (cc) any other documentation or information which LESSOR may reasonably require of LESSEE under the terms of this Lease, where such failure continues for a period of thirty (30) days following written notice by or on behalf of LESSOR to LESSEE, shall constitute a Breach.

17.3 Limited Late Charge Waiver. Notwithstanding the provisions of Paragraph 13.4 of the Lease, LESSOR agrees to waive any late charges so long as LESSEE is not late in payment of the Base Rent or additional rent on more than one (1) occasion during any twelve (12) month period and LESSEE otherwise pays the late rent within three (3) business days from LESSOR's delivery of written notice of such nonpayment.

17.4 Limitation. Notwithstanding the provisions of Paragraph 13.2 of the Lease, LESSOR agrees to refrain from undertaking direct action so long as LESSEE, within ten (10) days following receipt of LESSOR's notice, provides satisfactory evidence that LESSEE has commenced the required performance and that LESSEE's performance will be completed within the time period allowed for LESSEE to cure a Default with respect to the item to be performed.

18. Additional Provision Regarding Condemnation. Notwithstanding any contrary provision in Paragraph 14 of the Lease, in addition to any other compensation to which LESSEE may be entitled to pursuant to Paragraph 14 of the Lease, if a taking occurs during the first five (5) years of the Original Term, LESSEE shall be entitled to receive a portion of any condemnation proceeds actually received by LESSOR attributable to the unamortized cost of the Tenant Improvements, with such portion equaling a percentage determined by (a) dividing the aggregate amount of the Tenant Improvement Costs paid by LESSEE, (b) by the total Tenant Improvement Costs paid by both LESSOR and LESSEE.

19. Additional Provision Regarding LESSOR's Liability. Notwithstanding the provisions of Paragraph 17 of the Lease, the provision providing for LESSOR, or its successors, to be relieved from liability upon transfer or assignment of the Lease shall only apply so long as such transferee or assignee expressly assumes in writing the obligations of the LESSOR under this Lease arising from and after the date of such assignment or transfer.

20. Additional Provision Regarding Interest. Notwithstanding the provisions of Paragraph 19 of the Lease, to the extent that LESSOR becomes entitled to collect more than one late charge for the same Default, LESSOR agrees to waive interest charges to the extent that the amount actually collected by LESSOR on account of any cumulative late charges (not including the initial late charge attributable to the particular Default), if taken together with the interest on the same sums, would exceed the amount of interest on the undue amount provided in Paragraph 19 of the Lease.

21. Waiver. No waiver by LESSEE of any breach of any term, covenant or condition hereof by LESSOR shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent breach by LESSOR of the same or of any other term, covenant or condition hereof.

22. Additional Option Provisions. Notwithstanding the provisions of Paragraph 39.2 of the Lease providing that the options are personal to LESSEE, LESSEE shall have the right to assign the options as a part of the assignment of the Lease in the following circumstances: (a) in an Affiliate Transaction; or (b) in an assignment to which LESSOR is obligated to provide its consent in accordance with Paragraph 12 of the Lease and section 16 of this Addendum; provided, however, in the case of preceding clause (b), LESSOR shall have the right to elect to terminate this Lease rather than permit the assignment of the options, by giving LESSEE notice of such termination in LESSOR's Notice under subsection 16.6, and such termination shall be effective upon the later to occur of (i) the expiration of thirty (30) days following the delivery of such LESSOR's Notice, or (ii) the date of the proposed assignment. In addition, subject to Paragraph 39 of the Lease, LESSOR is granting to LESSEE two (2) successive options to extend the Lease term for successive five (5) year periods, with the first option period beginning upon the expiration of the Original Term and the second option period beginning on the expiration of the first option period. Each option shall be exercised only by written notice delivered to LESSOR no earlier than 365 days and no later than 180 days before the expiration of the Lease, or previous option period, whichever is applicable. Regardless of cause, if LESSEE fails to timely give notice of the exercise of an option, all option rights will automatically lapse and terminate and be of no further force or effect without any requirement of notice or demand by LESSOR. The Base Rent for each option period shall be adjusted in accordance with subsection 22.1 of this Addendum at the beginning of each option period. The other terms and conditions of the Lease shall remain in effect during each option period, except: (a) except as provided in subsection 22.2 of this Addendum, no tenant improvements or allowances shall be provided by LESSOR, and LESSEE shall be deemed to have extended the term of the Lease and accepted the Premises "AS IS" in their then existing condition and without representation or warranty from LESSOR; (b) upon the exercise of the first option, LESSEE shall have only one remaining option to extend the Lease for an additional five (5) year period, and upon the exercise of the second option, LESSEE shall have no further right to extend the term of the Lease; (c) the limitation on Operating Expenses under section 2 of this Addendum shall not apply; and (d) as provided in section 11 of this Addendum, LESSOR shall have no further responsibility for the maintenance and repair of the non-structural roof membrane.

22.1 Adjustment to Base Rent. Except as otherwise provided in this section, the Base Rent shall be adjusted at the beginning of each option period to 95% of the "fair rental value" of the Premises as determined in the following manner:

(a) Within thirty (30) days from LESSEE's notice, LESSOR and LESSEE shall meet in an effort to negotiate, in good faith, the fair rental value of the Premises as of the beginning of the applicable option period. If LESSOR and LESSEE have not agreed upon the fair rental value of the Premises at least ninety (90) days prior to the beginning of the applicable option period, the fair rental value shall be determined by appraisal, by one or more appraisers ("Appraiser(s)"). The Appraisers shall have at least five (5) years experience in the appraisal of commercial/industrial real property in the area in which the Premises is located and shall be members of professional organizations such as M.A.I. or equivalent.

(b) If LESSOR and LESSEE are not able to agree upon the fair rental value of the Premises within the prescribed time period, then LESSOR and LESSEE shall attempt to agree in good faith upon a single Appraiser not later than seventy-five (75) days prior to the beginning of the applicable option period. If LESSOR and LESSEE are unable to agree upon a single Appraiser within such time period, then LESSOR and LESSEE shall each appoint one Appraiser not later than sixty-five (65) days prior to the beginning of the applicable option period. Within ten (10) days thereafter, the two (2) appointed Appraisers shall appoint a third Appraiser. If either LESSOR or LESSEE fails to appoint its Appraiser within the prescribed time period, the single Appraiser appointed shall determined the fair rental value of the Premises. If both parties fail to appoint Appraisers within the prescribed time periods, then the first Appraiser thereafter selected by a party shall determine the fair rental value of the Premises. Each party

shall bear the cost of its own Appraiser and the parties shall share equally the cost of the single or third Appraiser, if applicable.

(c) For the purposes of such appraisal, the term "fair rental value" shall mean the price that a ready and willing tenant would pay, as of the beginning of the applicable option period, as monthly rent to a ready and willing landlord of property comparable to the Premises if such property were exposed for lease on the open market for a reasonable period of time and taking into account all of the purposes for which such property may be used. Fair rental value shall take into consideration all monetary concessions being granted in connection with such comparable property, including without limitation, rent abatement concessions and tenant improvements or allowances (after deduction for the refurbishment allowance afforded LESSEE under subsection 22.2 of this Addendum) provided therefor. If a single Appraiser is chosen, then such Appraiser shall determine the fair rental value of the Premises. Otherwise, the fair rental value of the Premises shall be the arithmetic average of the two (2) of the three (3) appraisals which are closest in amount, and the third appraisal shall be disregarded. LESSOR and LESSEE shall instruct the Appraiser(s) to complete the determination of the fair rental value not later than thirty (30) days prior to the beginning of the applicable option period. If the fair rental value is not determined prior to the beginning of the applicable option period, then LESSEE shall continue to pay to LESSOR the Base Rent applicable to the Premises immediately prior to such extension, until the fair rental value is determined. When the fair rental value of the Premises is determined, LESSOR shall deliver notice thereof to LESSEE, and if the fair rental value is higher, LESSEE shall pay to LESSOR, within ten (10) days after receipt of such notice, the difference between the Base Rent actually paid by LESSEE to LESSOR and the new Base Rent determined hereunder.

(d) Notwithstanding any other provision of this Lease, in no event shall the Base Rent in effect for the last year of the Original Term, or the last year of the immediately preceding option period ("Prior Base Rent"), be decreased on account of the operation of this section. If the fair rental value of the Premises determined under this section is less than the Prior Base Rent, then the Base Rent for the applicable option period shall equal the Prior Base Rent.

(e) The provision providing for an adjustment to 95% of the fair market rental shall not apply if LESSOR becomes obligated to pay any real estate brokerage commission pursuant to any agreements or other acts or omissions of LESSEE on account of LESSEE's extension of the term of the Lease. If any such commissions are payable, the rent shall be 100% of the fair market rental, subject to the provisions of preceding clause (d).

22.2 Refurbishment Allowance. In the case of each option period, LESSOR shall reimburse LESSEE for certain "Refurbishment Expenses" (as defined below) up to a maximum amount not to exceed the "Refurbishment Allowance" (as defined below). The term "Refurbishment Expense(s)" means out-of-pocket expenses paid by LESSEE, no earlier than 180 days prior to the beginning of each option period, to replace carpet, repaint interior walls and replace damaged or soiled ceiling tiles with comparable quality materials to the items being replaced or refurbished. The term "Refurbishment Allowance" means an amount, calculated as of the beginning of each option period, equal to the lesser of (i) $41,450.00 increased by increases in the "Index" (as defined below) from the Commencement Date, or (ii) a maximum amount of $62,175.00.

22.3 "Index" Defined. The term "Index" means the Consumer Price Index for Urban Wage Earners and Clerical Workers, in the Los Angeles-Anaheim-Riverside metropolitan area, All Items (1982-84 equals 100), published by the Bureau of Labor Statistics of the United States Department of Labor. If the Bureau of Labor Statistics revises the Index, the parties agree that the Bureau of Labor Statistics will be the sole judge of the comparability of successive indexes, but if that agency fails to supply indexes that it deems comparable, or if no succeeding index is published, then the parties shall negotiate in good faith to reasonably determine an appropriate alternative published price index.

23. Arbitration Procedure. Whenever in this Lease another provision expressly provides for the resolution of a dispute through Arbitration, the arbitration procedures provided

in this section shall apply ("Arbitration"). Any Arbitration permitted pursuant to this section shall be commenced and conducted in accordance with the California Code of Civil Procedure, Section 1281, et. seq., and the discovery procedures permitted by Section 1283.05 of the Code shall apply. The Arbitration award rendered shall be final and binding and judgment may be entered upon it in accordance with applicable laws and any court having jurisdiction thereof. Except on account of claims, disputes and other matters in question required to be submitted to Arbitration in accordance with another section of this Lease, all other claims, disputes and actions arising from or relating to this Lease shall be commenced and maintained in the appropriate court having jurisdiction. Notwithstanding any other provision, the jurisdiction of any arbitrators appointed pursuant to this provision shall not extend to the award of any exemplary or punitive damages, or other substantially equivalent damages.

24. Subordination/Non-Disturbance. LESSEE shall execute and deliver to
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LESSOR, in favor of LESSOR's lender, a Subordination, Estoppel, Nondisturbance and Attornment Agreement in the form as shown in Exhibit "5" annexed to this Lease upon request, and LESSOR shall cause LESSOR's lender to execute such agreement in favor of LESSEE. If the Premises are presently encumbered by a mortgage, deed of trust or similar security interest in favor of LESSOR's lender, within thirty (30) days from LESSOR's execution of the Lease, LESSOR shall cause such lender to enter into a nondisturbance acknowledging LESSEE's right to continued occupancy under the Lease so long as LESSEE is not in Breach of the Lease and notwithstanding LESSOR's default under the mortgage, deed of trust or other security device. If such lender requests, such nondisturbance agreement shall also include provisions regarding the subordination of the Lease and certain estoppel certification and LESSEE agrees to execute a Subordination, Estoppel, Nondisturbance and Attornment Agreement in the form as shown in Exhibit "5" annexed to this Addendum.

25. Hazardous Materials Questionnaire. Without limiting LESSEE's
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obligations under Paragraph 6.2 of the Lease regarding compliance with Applicable Laws concerning Hazardous Substances, LESSEE shall, within ten (10) days from the execution, complete and deliver to LESSOR for its filing with applicable government authorities a Hazardous Materials Questionnaire in the form as set forth in Exhibit "6" annexed to this Addendum.

26. Additional Notice Provisions. LESSEE may, by giving written notice to
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LESSOR, change the address for notices under Paragraph 23 of the Lease from the address of the Premises to any other address designated by LESSEE. In addition, LESSOR shall also give copies of any notice of Default or Breach as follows: U.S. Industries, Inc., 101 Wood Avenue South, Iselin, New Jersey, 08830, Attention: Rich Buccarelli.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this Addendum as of the date set forth above.

"LESSOR"

TECHPLEX, L.P., a California limited partnership
By Its General Partner

HAMANN CONSOLIDATED, INC.,
a California corporation

By: /s/ JEFFREY C. HAMANN

Jeffrey C. Hamann, President

By: /s/ JEFFREY C. HAMANN

Gregg Hamann, Secretary
Jeffrey C. Hamann has Attorney In Fact for Gregg Hamann

"LESSEE"

PUTTER PROPERTIES, INC., a Delaware corporation

By: /s/ RICHARD A. BUCCARELLI

Richard A. Buccarelli, Vice President

By:

[Signature]

Print Name and Title of Signatory

Exhibit 10.4.2

ASSIGNMENT
(Real Property Lease)

THIS ASSIGNMENT, made as of August 8, 1997, by Putter Properties, Inc., a Delaware corporation ("Putter") and Callaway Acquisition, a California corporation ("Buyer") provides:

RECITALS

Odyssey Sports, Inc., a California corporation ("Seller"), among others, has entered into an Asset Purchase Agreement dated July 20, 1997 (the "Purchase Agreement") pursuant to which Seller has agreed to sell certain assets to Callaway Golf Company, a California corporation ("Callaway Golf"), and Callaway Golf has agreed to purchase from Seller such assets. Pursuant to subsection 10.10 of the Purchase Agreement, Callaway Golf has assigned the Purchase Agreement to Buyer, its wholly owned subsidiary. Putter and Techplex, L.P., a California limited partnership ("Lessor") entered into that certain Standard Industrial/Commercial Single-Tenant Lease-Net dated December 20, 1996, including an Addendum to Lease attached thereto, whereby Lessor leased to Putter certain real property, including all buildings and permanent improvements thereon (the "Premises"), commonly known as 1969 Kellogg Avenue, Carlsbad, California, for general office, research, development, manufacturing and any other legally permitted use (the "Lease"). Putter now desires to assign the Lease to Buyer and Buyer desires to accept the assignment of the Lease.

NOW THEREFORE, in consideration of the above premises and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged Putter assigns and transfers to Buyer all of Putter's right, title, and interest in and to the Lease, a copy of which (including all amendments thereto) is attached to the assignment as Exhibit A, and Buyer agrees to and does accept the assignment. Buyer expressly assumes and agrees to keep, perform, and fulfill by Putter as Lessee under the Lease, including the making of all payments due to Lessor under the Lease when due and payable.

Putter and Buyer agree to execute and deliver, or cause to be executed and delivered, and to do or make or cause to be done or made, any and all instruments, papers, acts or things, supplemental, confirmatory or otherwise, as reasonably may be required by the other party for the purposes of perfecting and completing the transfer and conveyance to Buyer of the Lease.

IN WITNESS WHEREOF, Putter and Buyer have each caused this Assignment to be executed and delivered in a manner sufficient to bind it, as of the day and year first above written.

PUTTER PROPERTIES, INC., a Delaware corporation	CALLAWAY ACQUISITION, a California corporation
By: /s/ GEORGE H. MACLEAN	By: /s/ DONALD H. DYE
Name: George H. MacLean	Name: Donald H. Dye
Title: Vice President	Title: President and CEO

Exhibit 10.4.3

GUARANTY OF LEASE

THIS GUARANTY OF LEASE ("Guaranty") is entered into as of August 8, 1997, by Callaway Golf Company, a California corporation ("GUARANTOR"), in favor of Techplex, L.P., a California limited partnership ("LANDLORD"), and is with reference to the following facts, which are a material part of this Guaranty:

A. LANDLORD and Putter Properties, Inc., a Delaware corporation, ("TENANT") previously entered into that certain Standard Industrial/Commercial Single-Tenant Lease-Net, dated December 20, 1996 ("Lease").

B. Tommy Armour Golf Company, a Delaware corporation, and Odyssey Sports, Inc., a California corporation ("Odyssey") entered into a Guaranty of Lease, dated December 20, 1996, to guaranty TENANT's obligations under the Lease.

C. Callaway Acquisition, a California corporation ("Callaway") and an affiliate of GUARANTOR, is acquiring all of the assets of Odyssey and is succeeding to the liabilities of TENANT under the Lease.

D. Any words or phrases constituting defined terms in the Lease shall have the same meaning and effect when used in this Guaranty.

NOW THEREFORE, for other good and valuable consideration, the receipt and sufficiency of which is acknowledged, GUARANTOR agrees as follows:

1. Guaranteed Obligations. GUARANTOR hereby unconditionally and irrevocably guarantees to LANDLORD the payment of, and promises to pay to LANDLORD, or order, upon demand after any Breach under the Lease, all indebtedness and obligations, of any nature whatsoever, of TENANT under the Lease and any and all extensions, renewals, substitutions, replacements and modifications thereof, and additionally promises to timely perform all other obligations as set forth in the Lease. For purposes of reference in this Guaranty, all of the obligations described in this section being guaranteed by GUARANTOR are referred to as the "Guaranteed Obligations."

2. Independent Obligations. This Guaranty is a guaranty of payment and not of collection. The GUARANTOR's obligations under this Guaranty are independent of those of the TENANT and of the obligations of any other guarantor, and are not conditioned or contingent upon the validity, regularity, or enforceability of the Guaranteed Obligations or of the obligations of any other guarantor. LANDLORD may bring a separate action against the GUARANTOR without first proceeding against the TENANT, any other guarantor, or any other person or entity. LANDLORD's rights under this Guaranty in respect of the Guaranteed Obligations shall not be exhausted by any

action of the LANDLORD until all of the Guaranteed Obligations have been fully and indefeasibly paid.

3. Waiver of Defenses. The GUARANTOR waives and agrees not to assert or take advantage of:

(a) any right to require the LANDLORD to proceed against the TENANT, any other guarantor, or any other person or entity, or to pursue any other remedy whatsoever, including, without limitation, any such right or any other right set forth in or arising out of any of Sections 2845, 2848, 2849, 2850 and 2855 of the California Civil Code;

(b) any defense based upon any legal disability of the TENANT or of any other guarantor or any discharge or limitation of the liability of the TENANT or of any other guarantor to the LANDLORD, or any restraint or stay applicable to actions against the TENANT or against any other guarantor, whether such disability, discharge, limitation, restraint, or stay is consensual, arises by order of a court or other governmental authority, or arises by operation of law or any liquidation, reorganization, receivership, bankruptcy, insolvency or debtor relief proceeding, or from any other cause, including, without limitation, any defense to the payment of interest, attorneys' fees and costs, and other charges that otherwise would accrue or become payable in respect of the Guaranteed Obligations after the commencement of any such proceeding:

(c) setoffs or counterclaims (except as otherwise available to TENANT), presentment, demand, protest, notice of protest, notice of non-payment, or other notice of any kind;

(d) any defense based upon the modification, renewal, extension, or other alteration of the Guaranteed Obligations;

(e) any defense based upon a statute of limitations (to the fullest extent permitted by law), and any defense based upon the LANDLORD's delay in enforcing this Guaranty;

(f) any defense based upon the death, incapacity, lack of authority, or termination of existence of, or revocation of this Guaranty by, any person or entity or persons or entities, or the substitution of any party to this Guaranty;

(g) any defense based upon or related to the GUARANTOR's lack of knowledge as to the TENANT's financial condition;

(h) any defense based upon Section 2809 of the California Civil Code;

(i) any defense based upon the impairment of any subrogation or reimbursement rights that the GUARANTOR might have; and

(j) any right to direct the application of any payment or collateral.

4. TENANT's Financial Condition. The GUARANTOR acknowledges that the GUARANTOR is relying upon the GUARANTOR's own knowledge and is fully informed with respect to the TENANT's financial condition. The GUARANTOR assumes full responsibility for keeping fully informed of the financial condition of the TENANT and all other circumstances affecting the TENANT's ability to perform its obligations to the LANDLORD, and agrees that the LANDLORD will have no duty to report to the GUARANTOR any information that the LANDLORD receives about the TENANT's financial condition or any circumstances bearing on the TENANT's ability to perform all or any portion of the Guaranteed Obligations, regardless of whether the LANDLORD has reason to believe that any such facts materially increase the risk beyond that which the GUARANTOR intends to assume or has reason to believe that such facts are unknown to the GUARANTOR or has a reasonable opportunity to communicate such facts to the GUARANTOR.

5. Subrogation and Additional Waiver. Until all the covenants and conditions in the Lease on TENANT's part to be performed and observed, are fully performed and observed, GUARANTOR (a) shall have no right of subrogation against TENANT by reason of any payments or acts of performance by GUARANTOR hereunder; and (b) subordinates any liability or indebtedness of TENANT now or hereafter held by GUARANTOR in the obligations of TENANT to LANDLORD under the Lease. GUARANTOR waives all rights and defenses arising out of an election of remedies by LANDLORD, even though that election of remedies has destroyed or diminished GUARANTOR's rights of subrogation and reimbursement against TENANT.

6. Liability of GUARANTOR. The liability of GUARANTOR under this Guaranty shall in no way be affected by (a) the release or discharge of TENANT in any creditor's receivership, bankruptcy or similar proceeding; (b) the impairment, limitation or bankruptcy, or of any remedy for the enforcement of TENANT's liability under the Lease resulting from the operation of any present or future provision of the bankruptcy code or similar statute or similar decision in any court; (c) the rejection or disaffirmance of the Lease in any such proceedings; (d) the assignment or transfer of the Lease by TENANT; (e) any disability of TENANT; (f) the exercise by LANDLORD of any of its rights or remedies reserved under the Lease or by law; or (g) any termination of the Lease.

7. Financial Statements. If LANDLORD desires to sell, finance or refinance the property which compromises in whole or in part the Premises which are the subject of the Lease, GUARANTOR agrees to deliver to any lender or buyer designated by LANDLORD financial statements of GUARANTOR (in such form as customarily prepared by or for GUARANTOR, including all audited statements prepared, if any) as may be reasonably required by such lender or buyer. Such statements shall include the past three (3) years' financial statements of GUARANTOR. Any such financial

statements shall be received by LANDLORD in confidence and shall be used only for the foregoing purposes.

8. Attorneys' Fees. In the event of any litigation between GUARANTOR and LANDLORD to enforce or interpret this Guaranty or in connection with the Lease, the unsuccessful party to such litigation agrees to pay to the successful party all fees, costs and expenses, including reasonable attorney's fees, expert witness fees and expenses.

9. Binding Effect/Assignment. This Guaranty shall be binding upon the GUARANTOR and the GUARANTOR's heirs, executors, personal representatives, successors, and assigns, and shall inure to the benefit of, and be enforceable by, the LANDLORD and the LANDLORD's successors and assigns. The benefit of this Guaranty shall be assignable by LANDLORD to LANDLORD's lenders and successors and enforceable by them, and the term "Landlord" as used in this Guaranty includes such successors and assigns. Any assignment of the Lease shall be deemed to include the assignment of this Guaranty notwithstanding that this Guaranty is not separately described in the instrument of assignment.

10. Notices. All notices and other communications shall be in writing and provided to LANDLORD at the address set forth in the Lease and to GUARANTOR, or at the address set forth under GUARANTOR's signature, unless either party gives the other written notice of a different address for notices and communications.

11. Severability. If any provision of this Guaranty shall be deemed or held to be invalid or unenforceable for any reason, such provision shall be adjusted, if possible, rather than voided, so as to achieve the intent of the parties to the fullest extent possible. In any event such provision shall be severable from, and shall not be construed to have any effect on, the remaining provisions of this Guaranty, which shall continue in full force and effect.

12. Multiple Obligors. If "GUARANTOR" refers to more than one person or entity, then (i) the obligations of each such person or entity shall be joint and several; (ii) all references to the "GUARANTOR" shall, unless the context otherwise requires, refer to all such parties jointly and severally; and (iii) each such person or entity named as GUARANTOR waives any and all defenses based upon suretyship or guaranty or impairment of collateral. If the GUARANTOR is a partnership, the partnership and all general partners therein shall be jointly and severally liable under this Guaranty. Where the "TENANT" is more than one person or entity, the word "TENANT" shall mean all and any one or more of them.

13. Governing Law; Jurisdiction. This Guaranty shall be governed by and construed in accordance with the laws of the State of California applicable to contracts to be wholly performed within the State of California. The GUARANTOR, by execution of this Guaranty, irrevocably consents to the jurisdiction of the Courts of the State of

California and of any Federal Court located in such State in connection with any action or proceeding arising out of or relating to this Guaranty.

14. Rights Cumulative; No Waiver. The LANDLORD's options, powers, rights, privileges, and immunities specified herein or arising hereunder are in addition to, and not exclusive of, those otherwise created or existing now or at any time, whether by contract, by statute, or by rule of law. The LANDLORD shall not, by any act, delay, omission or otherwise, be deemed to have modified, discharged, or waived any of the LANDLORD's options, powers or rights in respect of this Guaranty, and no modification, discharge, or waiver of any such option, power or right shall be valid unless set forth in writing signed by the LANDLORD or the LANDLORD's authorized agent, and then only to the extent therein set forth. A waiver by the LANDLORD of any right or remedy hereunder on any one occasion shall be effective only in the specific instance and for the specific purpose for which given, and shall not be construed as a bar to any right or remedy that the LANDLORD would otherwise have on any other occasion.

15. Entire Agreement. This Guaranty contains the entire agreement between the GUARANTOR and the LANDLORD with respect to its subject matter, and supersedes all prior communications relating thereto, including, without limitation, all oral statements or representations. No supplement to or modification of this Guaranty shall be binding unless executed in writing by the GUARANTOR and the LANDLORD.

16. No Execution by Landlord. LANDLORD, by acceptance of the delivery of this Guaranty from GUARANTOR shall be deemed to have accepted the terms and conditions of this Guaranty. This Guaranty does not require the LANDLORD to execute the GUARANTY as a condition to its effectiveness.

IN WITNESS WHEREOF, GUARANTOR has executed this Guaranty to be effective as of the date first set forth above.

"GUARANTOR"

Callaway Golf Company,
a California corporation

By: /s/ DONALD H. DYE

Donald H. Dye, President and CEO
2285 Rutherford Road
Carlsbad, California 92008-8815

EXHIBIT 10.5

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT is made as of this 16th day of July, 1997, by and between Callaway Golf Company, a California corporation (the "Company"), and Vernon E. Jordan, Jr. ("Indemnitee"), a director of the Company.

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

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

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

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

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

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

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

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

1.2 Agreement. "Agreement" shall mean this Indemnification Agreement, as the same may be amended from time to time hereafter.

1.3 Code. "Code" shall mean the California Corporations Code, as amended.

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

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

2. INDEMNIFICATION

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

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

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

enterprise, against all expense, liability and loss (including attorneys' fees) and amounts paid in settlement (if such settlement is court-approved) actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such action or suit if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the Company and its shareholders and provided, further, that the Company has determined that such indemnification is otherwise permitted by applicable law. No indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company in the performance of Indemnitee's duties to the Company and its shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine.

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

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

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

3. EXPENSES; INDEMNIFICATION PROCEDURE

3.1 Advancement of Expenses. The Company shall advance all expenses incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any civil or criminal action, suit or proceeding referenced in Section 2.1 or 2.2 hereof. Indemnitee hereby undertakes to repay such amounts advanced only if, and to the extent that, it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Company as authorized hereby or that such indemnification is not otherwise permitted by applicable law. The advances to be made hereunder shall be paid by the Company to Indemnitee within thirty (30) days following delivery of a written request therefor or by Indemnitee to the Company.

3.2 Determination of Conduct. Any indemnification (unless ordered by a court) shall be made by the Company only as authorized in the specified case upon a determination that indemnification of Indemnitee is proper under the circumstances because Indemnitee has met the applicable standard of conduct set forth in Sections 2.1 or 2.2 of this Agreement. Such determination shall be made by any of the following: (1) the Board of Directors (or by an executive committee thereof) by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, (2) if such a quorum is not obtainable, or, even if obtainable, if a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, (3) by the shareholders, with the shares owned by Indemnitee not being entitled to vote thereon, or (4) the court in which such proceeding is or was pending upon application made by the Company or Indemnitee or the attorney or other person rendering services in connection with the defense, whether or not such application by Indemnitee, the attorney or the other person is opposed by the Company.

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

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

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

defense of such proceeding, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Company (subject to the provisions of this Agreement).

4. ADDITIONAL INDEMNIFICATION RIGHTS; NON-EXCLUSIVITY

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

4.2 Scope. The Company hereby agrees to indemnify Indemnitee to the fullest extent permitted by law (except as set forth in Section 8 hereof), notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Articles of Incorporation, the Company's Bylaws or by statute. In the event of any changes, after the date of this Agreement, in any applicable law, statute, or rule which expands the right of a California corporation to indemnify a member of its board of directors, such changes shall be, ipso facto, within the purview of Indemnitee's rights and the Company's obligations under this Agreement. In the event of any change in any applicable law, statute, or rule which narrows the right of a California corporation to indemnify a member of its board of directors, such changes, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

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

5. PARTIAL INDEMNIFICATION

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

6. MUTUAL ACKNOWLEDGMENT

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

7. LIABILITY INSURANCE

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

8. SEVERABILITY

8.1 Severability. Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 8.1. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

9. EXCEPTIONS

9.1 Exceptions to Company's Obligations. Any other provision to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement for the following:

(a) Claims Initiated by Indemnitee. To indemnify or advance expenses to Indemnitee with respect to proceedings or claims initiated or brought voluntarily by Indemnitee and not by way of defense, unless said proceedings or claims were authorized by the board of directors of the Company.

(b) Improper Personal Benefit. To indemnify Indemnitee against liability for any transactions from which Indemnitee, or any Affiliate of Indemnitee, derived an improper personal benefit, including, but not limited to, self-dealing or usurpation of a corporate opportunity.

(c) Dishonesty. To indemnify Indemnitee if a judgment or other final adjudication adverse to Indemnitee established that Indemnitee committed acts of active and deliberate dishonesty, with actual dishonest purpose and intent, which acts were material to the cause of action so adjudicated.

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

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

10. MISCELLANEOUS

10.1 Construction of Certain Phrases.

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

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

good faith and in a manner Indemnitee reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner "reasonably believed to be in the best interests of the Company and its shareholders" as referred to in this Agreement.

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

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

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

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

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

10.5 Choice of Law. This Agreement shall be governed by and its provisions construed in accordance with the laws of the State of California, as applied to contracts between California residents entered into and to be performed entirely within California.

10.6 Counterparts. This Agreement may be executed in counterparts, each of which shall constitute an original and all of which together shall constitute one and the same instrument.

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

"Company" Callaway Golf Company, a California corporation

By: /s/ Donald H. Dye
(Signature)

Donald H. Dye
(Name)

President and CEO
(Title)

"Indemnitee"

Vernon E. Jordan, Jr.
(Name)

/s/ Vernon E. Jordan, Jr.
(Signature)

Address:
Akin, Gump, Strauss, Hauer & Feld LLP

1333 New Hampshire Ave., N.W. Suite 400

Washington, D.C. 20036

EXHIBIT 11.1

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

	Three months ended		Nine months ended	
	September 30, 1997	September 30, 1996	September 30, 1997	September 30, 1996
Primary earnings per share computation:				
Net income	$37,049	$38,418	$108,337	$96,810
Weighted average shares outstanding	68,704	67,128	68,085	66,624
Dilutive options	2,944	3,937	3,297	3,766
Common equivalent shares	71,648	71,065	71,382	70,390
Primary earnings per share:				
Net income	$.52	$.54	$1.52	$1.38
Fully diluted earnings per share computation:				
Net income	$37,049	$38,418	$108,337	$96,810
Weighted average shares outstanding	68,704	67,128	68,085	66,624
Dilutive options	2,946	4,052	3,383	4,051
Common equivalent shares	71,650	71,180	71,468	70,675
Fully diluted earnings per share:				
Net income	$.52	$.54	$1.52	$1.37

The Schedule contains summary financial information extracted from the Callaway Golf Company Consolidated Condensed Balance Sheet (unaudited) and Consolidated Condensed Statement of Income (unaudited) at September 30, 1997 and for the nine months then ended and is qualified in its entirety by reference to such financial statements.

9-MOS
DEC-31-1997
JAN-01-1997
SEP-30-1997
41,493
0
169,208
7,336
73,016
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173,029
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0
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679,540
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319,026
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0
0
0
108,337
1.52
1.52