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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended September 30, 2000

OR

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

Commission file number 1-10962

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**CALLAWAY GOLF COMPANY**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or  
organization)

**95-3797580**

(I.R.S. Employer Identification No.)

**2285 Rutherford Road, Carlsbad, CA 92008-8815**

**(760) 931-1771**

(Address, including zip code, and telephone number, including area code, of principal executive offices)

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

The number of shares outstanding of the Registrant's Common Stock, \$.01 par value, as of October 31, 2000 was 74,172,122.

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**CALLAWAY GOLF COMPANY**

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

#### CALLAWAY GOLF COMPANY CONSOLIDATED CONDENSED BALANCE SHEET

(In thousands, except share and per share data)

	September 30, 2000	December 31, 1999
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 121,625	\$ 112,602
Accounts receivable, net (Note 5)	97,208	54,252
Inventories, net	103,005	97,938
Deferred taxes	30,372	32,558
Other current assets	10,689	13,122
	<u>362,899</u>	<u>310,472</u>
Total current assets	362,899	310,472
Property, plant and equipment, net	135,998	142,214
Intangible assets, net	113,878	120,143
Other assets	42,966	43,954
	<u>\$ 655,741</u>	<u>\$ 616,783</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 43,638	\$ 46,664
Accrued employee compensation and benefits	29,297	21,126
Accrued warranty expense	39,603	36,105
Accrued restructuring costs		1,379
Income taxes payable	12,945	
	<u>125,483</u>	<u>105,274</u>
Total current liabilities	125,483	105,274
Long-term liabilities:		
Deferred compensation	11,031	11,575
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred Stock, \$.01 par value, 3,000,000 shares authorized, none issued and outstanding at September 30, 2000 and December 31, 1999		
Common Stock, \$.01 par value, 240,000,000 shares authorized, 78,300,863 and 76,302,196 issued at September 30, 2000, and December 31, 1999, respectively	783	763
Paid-in capital	321,850	307,329
Unearned compensation	(1,570)	(2,784)
Retained earnings	353,623	288,090
Accumulated other comprehensive income	(2,424)	280
Less: Grantor Stock Trust (5,300,000 shares) at market	(81,514)	(93,744)
	<u>590,748</u>	<u>499,934</u>
Less: Common Stock held in treasury, at cost, 4,250,241 shares at September 30, 2000	(71,521)	

and none at December 31, 1999

Total shareholders' equity

519,227

499,934

\$ 655,741

\$ 616,783

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

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CALLAWAY GOLF COMPANY

CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS (Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2000		1999		2000		1999	
Net sales	\$ 205,940	100%	\$ 184,488	100%	\$ 704,788	100%	\$ 602,439	100%
Cost of goods sold	105,111	51%	95,943	52%	364,783	52%	323,548	54%
Gross profit	100,829	49%	88,545	48%	340,005	48%	278,891	46%
Operating expenses:								
Selling	41,066	20%	31,336	17%	131,808	19%	95,740	16%
General and administrative	20,683	10%	22,911	12%	55,804	8%	67,357	11%
Research and development	9,899	5%	8,672	5%	26,247	4%	25,405	4%
Restructuring			(65)				431	
Income from operations	29,181	14%	25,691	14%	126,146	18%	89,958	15%
Other income, net	2,689		2,934		6,417		769	
Income before income taxes	31,870	15%	28,625	16%	132,563	19%	90,727	15%
Provision for income taxes	12,542		11,053		52,059		35,562	
Net income	\$ 19,328	9%	\$ 17,572	10%	\$ 80,504	11%	\$ 55,165	9%
Earnings per common share:								
Basic	\$ 0.28		\$ 0.25		\$ 1.14		\$ 0.78	
Diluted	\$ 0.28		\$ 0.25		\$ 1.12		\$ 0.78	
Common equivalent shares:								
Basic	69,237		70,581		70,372		70,290	
Diluted	70,203		71,094		71,786		71,026	
Dividends paid per share	\$ 0.07		\$ 0.07		\$ 0.21		\$ 0.21	

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

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CALLAWAY GOLF COMPANY

CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS (Unaudited)

(In thousands)

	Nine months ended September 30,	
	2000	1999
Cash flows from operating activities:		
Net income	\$ 80,504	\$ 55,165
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,507	29,172
Loss on disposal of assets	338	259
Non-cash compensation	1,790	1,145
Tax benefit from exercise of stock options	5,043	1,869
Deferred taxes	3,588	3,590
Non-cash restructuring		158
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(46,218)	(31,553)
Inventories, net	(6,886)	72,798
Other assets	789	(2,412)
Accounts payable and accrued expenses	2,707	(6,060)
Accrued employee compensation and benefits	8,302	17,302
Accrued warranty expense	3,497	1,764
Accrued restructuring costs	(1,379)	(5,032)
Income taxes payable	13,044	(2,088)

Other liabilities	(544)	2,249
Accrued restructuring costs—long term		(1,326)
Net cash provided by operating activities	95,082	137,000
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(440)	(1,998)
Capital expenditures	(21,130)	(47,411)
Proceeds from sale of assets	190	5,055
Net cash used in investing activities	(21,380)	(44,354)
Cash flows from financing activities:		
Issuance of Common Stock	21,284	5,863
Dividends paid	(15,101)	(14,803)
Acquisition of Treasury Stock	(71,521)	
Proceeds from sale-leaseback of equipment	1,268	
Proceeds from note payable		17,247
Line of credit, net		(70,919)
Net cash used in financing activities	(64,070)	(62,612)
Effect of exchange rate changes on cash	(609)	(162)
Net increase in cash and cash equivalents	9,023	29,872
Cash and cash equivalents at beginning of period	112,602	45,618
Cash and cash equivalents at end of period	\$ 121,625	\$ 75,490

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

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

	Common Stock		Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income	GST	Treasury Stock			Comprehensive Income
	Shares	Amount						Shares	Amount	Total	
Balance, December 31, 1999	76,302	\$ 763	\$ 307,329	\$ (2,784)	\$ 288,090	\$ 280	\$ (93,744)			\$ 499,934	
Exercise of stock options	1,594	16	16,990							17,006	
Cancellation of Restricted Common Stock	(7)		(217)	217							
Tax benefit from exercise of stock options			5,043							5,043	
Acquisition of Treasury Stock								(4,250)	\$ (71,521)	(71,521)	
Compensatory stock and stock options			793	997						1,790	
Employee stock purchase plan	412	4	4,274							4,278	
Cash dividends					(15,843)					(15,843)	
Dividends on shares held by GST					742					742	
Adjustment of GST shares to market value			(12,230)				12,230				
Equity adjustment from foreign currency translation						(2,704)				(2,704)	\$ (2,704)
European consolidation			(132)		130					(2)	
Net income					80,504					80,504	80,504
Balance, September 30, 2000	78,301	\$ 783	\$ 321,850	\$ (1,570)	\$ 353,623	\$ (2,424)	\$ (81,514)	(4,250)	\$ (71,521)	\$ 519,227	\$ 77,800

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

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**CALLAWAY GOLF COMPANY**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
(Unaudited)

**1. BASIS OF PRESENTATION**

The accompanying financial information for the three and nine months ended September 30, 2000 and 1999 has been prepared by Callaway Golf Company (the "Company") and has not been audited. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for the fair presentation of the financial position, results of operations and cash flows for the periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed for the year ended December 31, 1999. Interim operating results are not necessarily indicative of operating results for the full year.

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

## 2. RECLASSIFICATIONS AND CHANGE IN ESTIMATE

In July 2000, the Emerging Issues Task Force ("EITF") finalized its consensus on Issue No. 00-10, "Accounting for Shipping and Handling Revenues and Costs." Pursuant to EITF Issue No. 00-10 and the Securities and Exchange Commission's position on this issue, all amounts billed to customers for shipping and handling should be included in "net sales" and costs incurred related to shipping and handling should be included in "cost of goods sold." The Company had previously included shipping and handling revenues and costs in "selling" costs. The Company's Statement of Operations for the three and nine months ended September 30, 2000 and 1999 has been reclassified and reflects the classification required by EITF Issue No. 00-10.

In September 2000, the Company completed an extensive upgrade of its enterprise-wide business software system to a more current release. The upgrade includes improved functionalities, and gives the Company the opportunity to build upon its investment in the software. As a result of this upgrade, the Company expects that this business system will have a greater useful life to the Company than originally estimated. Therefore, the Company has extended the estimated useful life of its business system by three years. The effect of this change in accounting estimate was to reduce depreciation expense by approximately \$274,000 for the three and nine months ended September 30, 2000. The resulting increase in net income for the three and nine months ended September 30, 2000 had a negligible effect on the Company's earnings per share for those periods. The Company anticipates that this change will result in an average annual decrease in depreciation expense of approximately \$3.0 million during 2001 and 2002.

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## 3. INVENTORIES

	September 30, 2000	December 31, 1999
	(Unaudited)	
Inventories, net (in thousands):		
Raw materials	\$ 53,724	\$ 45,868
Work-in-process	2,057	1,403
Finished goods	54,138	65,661
	<u>109,919</u>	<u>112,932</u>
Less reserve for obsolescence	(6,914)	(14,994)
	<u>\$ 103,005</u>	<u>\$ 97,938</u>

## 4. BANK LINE OF CREDIT

The Company has a revolving credit facility of up to \$120.0 million (the "Amended Credit Agreement"). The Amended Credit Agreement is secured by substantially all of the assets of the Company and expires in February 2004. The Amended Credit Agreement bears interest at the Company's election at the London Interbank Offering Rate ("LIBOR") plus a margin or the higher of the base rate on corporate loans at large U.S. money center commercial banks (prime rate) or the Federal Funds Rate plus 50 basis points. The Amended Credit Agreement requires the Company to maintain certain minimum financial ratios including a fixed charge coverage ratio, as well as other restrictive covenants. As of September 30, 2000 up to \$118.2 million of the credit facility remained available for borrowings (including a reduction of \$1.8 million for outstanding letters of credit), subject to meeting certain availability requirements under a borrowing base formula and other limitations.

## 5. ACCOUNTS RECEIVABLE SECURITIZATION

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

Under the Accounts Receivable Facility, the receivables are sold at face value with payment of a portion of the purchase price being deferred. As of September 30, 2000, no amount was outstanding under the Accounts Receivable Facility. Fees incurred in connection with this facility for the three and nine months ended September 30, 2000 were \$76,000 and \$228,000, respectively, and for the three and nine months ended September 30, 1999 were \$77,000 and \$749,000, respectively. These fees were recorded in "other income."

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## 6. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations for the three and nine months ended September 30, 2000 and 1999 is presented below.

<i>(in thousands, except per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
	(Unaudited)		(Unaudited)	
Net income	\$ 19,328	\$ 17,572	\$ 80,504	\$ 55,165
Weighted-average shares outstanding:				
Weighted-average shares outstanding—Basic	69,237	70,581	70,372	70,290
Dilutive securities	966	513	1,414	736
Weighted-average shares outstanding—Diluted	70,203	71,094	71,786	71,026
Earnings per common share:				
Basic	\$ 0.28	\$ 0.25	\$ 1.14	\$ 0.78
Diluted	\$ 0.28	\$ 0.25	\$ 1.12	\$ 0.78

For the three months ended September 30, 2000 and 1999, 9,772,000 and 12,024,000, respectively, options outstanding were excluded from the calculations, as their effect would have been antidilutive. For the nine months ended September 30, 2000 and 1999, 9,051,000 and 11,066,000, respectively, options outstanding were excluded from the calculations, as their effect would have been antidilutive.

## 7. COMMITMENTS AND CONTINGENCIES

At September 30, 2000, the Company was contingently liable for lease payments relating to a facility in New York City totaling \$6.2 million. This contingency is the result of the assignment of an operating lease to a third party and expires in February 2003.

On July 24, 2000, Bridgestone Sports Co., Ltd. ("Bridgestone") filed a complaint for patent infringement in the United States District Court for the Northern District of Georgia, Civil Action No. 100-CV-1871, against Callaway Golf Company, Callaway Golf Ball Company (collectively "Callaway Golf"), and a golf retailer located in Georgia. Bridgestone alleges that the manufacture and sale of the Company's Rule 35™ golf ball infringes four U.S. golf ball patents owned by Bridgestone. Bridgestone is seeking unspecified damages and injunctive relief. Callaway Golf has denied the allegations and is defending the action. On September 12, 2000, Callaway Golf answered the Complaint and asserted affirmative counterclaims against Bridgestone seeking a judicial declaration that Callaway Golf does not infringe the Bridgestone patents, that the patents are invalid, and that Bridgestone engaged in inequitable conduct in the United States Patent and Trademark Office. On October 13, 2000, Bridgestone and the retailer defendant entered into a consent judgment discontinuing the action against the retailer. The parties are engaged in discovery. No trial date has been set by the court.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims, including the Bridgestone matter specifically noted above. Such matters are subject to many uncertainties and outcomes are not predictable with assurance.

Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of September 30, 2000. Management believes at this time, however, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

## 8. TREASURY STOCK

On May 3, 2000, the Company announced that its Board of Directors authorized it to repurchase its Common Stock in the open market or in private transactions, subject to the Company's assessment of market conditions and buying opportunities from time to time, up to a maximum cost to the Company of \$100.0 million. The Company began its repurchase program in May 2000. During the third quarter of 2000, the Company spent \$21.5 million to repurchase 1.7 million shares of its Common Stock at an average cost of \$12.89 per share. Since the inception of this repurchase program in May 2000, through September 30, 2000, the Company has spent a total of \$71.5 million to repurchase 4.3 million shares of its Common Stock at an average cost of \$16.83 per share. Pursuant to the authority granted in May 2000, the Company may purchase up to \$28.5 million in additional shares by December 31, 2000.

The Company's repurchases of shares of Common Stock are recorded at average cost in "Common Stock held in treasury" and result in a reduction of "Shareholders' equity." At September 30, 2000, retained earnings was restricted in the amount of \$71.5 million, representing the cost of 4.3 million shares of Common Stock held in treasury.

## 9. RESTRUCTURING

During the fourth quarter of 1998, the Company recorded a restructuring charge of \$54.2 million resulting from a number of cost reduction actions and operational improvements. These actions included the consolidation of the operations of the Company's wholly-owned subsidiary, Odyssey Golf, Inc. ("Odyssey"), into the operations of the Company while maintaining the distinct and separate Odyssey® brand image; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. The restructuring charges primarily related to: 1) the elimination of job responsibilities, resulting in costs incurred for employee severance; 2) the decision to exit certain non-core business activities, resulting in losses on disposition of assets, as well as excess lease costs; and 3) consolidation of the Company's continuing operations, resulting in impairment of assets, losses on disposition of assets and excess lease costs. During 1999, the Company completed its restructuring initiatives. At September 30, 2000, there was no remaining reserve balance. The decrease in the reserve balance since December 31, 1999 of

\$1.4 million represents cash paid for excess lease costs related to a facility in New York City. The Company is contingently liable for lease payments related to this facility (Note 7).

## 10. SEGMENT INFORMATION

The Company's operating segments are organized on the basis of products and include golf clubs and golf balls. The Golf Clubs segment consists of Callaway Golf® titanium and stainless steel metal woods and irons, Callaway Golf® and Odyssey® putters and wedges, and related accessories. The Golf Balls segment consists of golf balls that are designed, manufactured, marketed and distributed by the Company's wholly-owned subsidiary, Callaway Golf Ball Company. Beginning January 1, 2000, management changed its method of allocating certain corporate costs and other income (expense) used in evaluating segment income (loss) before tax. As a result, certain amounts are attributable to neither segment in the determination of its income (loss) before tax. Additionally, beginning April 1, 2000, management further changed its method of allocating these costs between segments. Prior period amounts have been reclassified to reflect the current allocation methodology. The table below contains information utilized by management to evaluate its operating segments for the interim periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
<b>Net Sales</b>				
Golf Clubs	\$ 194,836	\$ 184,488	\$ 677,041	\$ 602,439
Golf Balls	11,104		27,747	
	\$ 205,940	\$ 184,488	\$ 704,788	\$ 602,439
<b>Income (loss) before tax</b>				
Golf Clubs	\$ 51,851	\$ 47,596	\$ 200,439	\$ 154,493
Golf Balls	(10,154)	(8,794)	(38,145)	(23,306)
Reconciling Items <sup>(1)</sup>	(9,827)	(10,177)	(29,731)	(40,460)
	\$ 31,870	\$ 28,625	\$ 132,563	\$ 90,727
<b>Additions to long-lived assets</b>				
Golf Clubs	\$ 4,446	\$ 370	\$ 17,717	\$ 4,804
Golf Balls	516	5,585	3,413	43,485
	\$ 4,962	\$ 5,955	\$ 21,130	\$ 48,289

(1)

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

## 11. FOREIGN CURRENCY EXCHANGE CONTRACTS

During the three and nine months ended September 30, 2000, the Company entered into forward foreign currency exchange rate contracts to hedge payments due on intercompany transactions from certain wholly-owned foreign subsidiaries and on certain euro-denominated accounts receivable. 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 the losses and gains on the transactions being

hedged, and the Company does not engage in hedging contracts which exceed the amount of the intercompany transactions. At September 30, 2000, the Company had approximately \$19.4 million of foreign exchange contracts outstanding. The contracts mature between October and December 2000. Gains and losses on the contracts are recorded in "other income." The net realized and unrealized gains from foreign exchange contracts for the three and nine months ended September 30, 2000 totaled approximately \$2,231,000 and \$4,558,000, respectively, and for the three months ended September 30, 1999, net realized losses totaled \$591,000, while the nine months ended September 30, 1999 netted unrealized gains of \$237,000.

## 12. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 summarizes the SEC's Division of Corporation Finance staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. As required, the Company will adopt SAB 101 in the fourth quarter of 2000. The adoption of SAB 101 will not result in a change in the Company's revenue recognition practices, and as such, no cumulative effect adjustment will be recorded.

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

Statements made in this report 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. These statements are based upon current information and expectations. Actual results may differ materially from those anticipated as a result of certain risks and uncertainties, including those described below in "Certain Factors Affecting Callaway Golf," as well as other risks and uncertainties detailed from time to time in the Company's periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission. 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.

### RESULTS OF OPERATIONS

*Three-month periods ended September 30, 2000 and 1999*

For the quarter ended September 30, 2000, net sales increased \$21.4 million, or 12%, to \$205.9 million from \$184.5 million in the comparable period of the prior year. The increase is attributable to an increase in sales of irons and golf balls, partially offset by a decrease in sales of metal woods. Irons sales increased 26% to \$74.5 million and represented an increase in both unit and dollar sales. This increase is primarily attributable to sales of Great Big Bertha® Hawk Eye® Tungsten Injected™ Titanium Irons, which were introduced in September 1999. Sales of Steelhead™ X-14™ Stainless Steel Irons, which were introduced in January 2000, generated approximately the same level revenue during the third quarter of 2000 as its predecessor, Steelhead™ X-12® Stainless Steel Irons, did in the comparable quarter of the prior year. The Company recorded sales of \$11.3 million of its Rule 35™ golf balls in the third quarter of 2000. This product was not sold in the comparable period of 1999. The overall decrease in sales of metal woods of 12% to \$99.3 million represents a decrease in both unit and dollar sales of titanium and non-current metal woods, offset by an increase in unit and dollar sales of stainless steel metal woods. The overall decrease in sales of metal woods is primarily attributable to a decrease in sales of Great Big Bertha® Hawk Eye® Titanium Metal Woods and to sales of non-current products in the third quarter of 1999, which did not occur in significant quantities during the comparable period of 2000. This decrease was partially offset by an increase in sales of Steelhead Plus™ Stainless Steel Metal Woods, which generated slightly higher revenue in the third quarter of 2000 than their predecessor, Steelhead™ Stainless Steel Metal Woods, did in the comparable quarter of 1999, and sales of ERC™ Forged Titanium Drivers, which were not sold in the comparable period of 1999.

Net sales reflect the effect of a reclassification of shipping revenues from "selling" expenses. This reclassification, which added \$1.5 million and \$1.2 million to third quarter sales in 2000 and 1999, respectively, was required by the Emerging Issues Task Force Issue No. 00-10 ("EITF 00-10") and did not result in a change in the Company's earnings or earnings per share for either period.

During the third quarter of 2000, sales increased in nearly all regions as compared with the third quarter of 1999. Sales in the United States increased \$2.2 million (2%) to \$106.9 million during the third quarter of 2000 versus the third quarter of 1999 and sales in Japan increased \$15.8 million (78%) to \$36.2 million during this same period. Sales in the Rest of Asia increased \$4.7 million (26%) to \$23.3 million and sales in the regions comprising the Rest of World increased \$3.6 million (37%) to \$13.5 million in the third quarter of 2000 as compared with the third quarter of 1999. However, sales in Europe decreased \$5.0 million (16%) to \$26.0 million in the third quarter of 2000 versus the third quarter of 1999.

For the third quarter of 2000, cost of goods sold increased to \$105.1 million from \$95.9 million in the third quarter of 1999, and as a percentage of net sales improved to 51% from 52%. The

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reclassification of shipping expense from "selling" expense that resulted from the application of EITF 00-10 added \$3.0 million and \$2.5 million to cost of goods sold in the third quarter of 2000 and 1999, respectively. The overall decrease in cost of goods sold as a percentage of net sales is attributable to a substantial improvement in cost of goods sold of golf club products to 48% of net sales in the third quarter of 2000 from 52% of net sales in the comparable period of 1999, partially offset by costs associated with manufacturing the Company's new golf balls. The improved cost of goods sold as a percentage of net sales for golf club products in the third quarter of 2000 is due primarily to a favorable product sales mix primarily related to sales of ERC™ Forged Titanium Drivers during the quarter, and the negative effect that close-out sales at substantially reduced prices during the third quarter of 1999 had on that period's cost of goods sold as a percentage of net sales, and to reductions in manufacturing labor and overhead expenses. Cost of goods sold for the Company's golf ball products during the third quarter of 2000 was adversely affected by plant utilization and production yields.

Selling expenses in the third quarter of 2000 increased to \$41.1 million (20% of net sales) from \$31.3 million (17% of net sales) in the third quarter of 1999, and include the reclassification of shipping revenue and expense which were previously recorded in "selling" expense. The effect of this reclassification reduced selling expenses by \$1.5 million and \$1.3 million for the third quarters of 2000 and 1999, respectively. The increase in selling expenses was primarily attributable to incremental expenses associated with sales of the Company's Rule 35™ golf balls and with expanded golf club sales activity in the Company's Japanese subsidiary. Prior to 2000, Callaway Golf® products were sold in Japan through a third party distributor. Other promotional expenses also contributed to the increase.

General and administrative expenses in the third quarter of 2000 decreased to \$20.7 million (10% of net sales) from \$22.9 million (12% of net sales) in the comparable quarter of 1999. This decrease is mainly attributable to the shifting of costs associated with the Company's golf ball pre-production period to cost of goods sold (i.e., the costs related to the production of golf balls during the quarter are now included in cost of goods sold rather than general and administrative expenses). This decrease was partially offset by an increase in bad debt expense associated with the write-off of uncollectible accounts.

Research and development expenses in the third quarter of 2000 increased to \$9.9 million (5% of net sales) from \$8.7 million (5% of net sales) in the third quarter of 1999. This increase is primarily attributable to an increase in employee costs, partially offset by a decrease in raw material consumption.

Other income in the third quarter of 2000 decreased to \$2.7 million from \$2.9 million in the comparable quarter of 1999. This decrease is primarily attributable to lower foreign currency transaction gains, partially offset by increases in interest income and royalty income.

For the third quarter of 2000, the Company recorded a provision for income taxes of \$12.5 million and recognized a decrease in deferred taxes of \$0.9 million. The provision for income taxes as a percentage of income before tax for the third quarters of 2000 and 1999 was 39%. During the third quarter of 2000, the Company realized \$0.5 million in tax benefits related to the exercise of employee stock options.

*Nine-month periods ended September 30, 2000 and 1999*



For the nine months ended September 30, 2000, net sales increased \$102.4 million, or 17%, to \$704.8 million from \$602.4 million in the comparable period of the prior year. The increase is attributable to an increase in sales of irons and golf balls, partially offset by a decrease in sales of metal woods. The increase in sales of irons of 53% to \$265.3 million represents an increase in both unit and dollar sales and is primarily attributable to sales of Steelhead™ X-14™ Stainless Steel Irons, which were introduced in January 2000, and which generated higher revenues during the first nine months of 2000 than its predecessor, Steelhead™ X-12® Stainless Steel Irons, did in the comparable period of the prior

year. Also contributing to the increase in sales of irons were sales of Great Big Bertha® Hawk Eye® Tungsten Injected™ Titanium Irons, which were not sold in significant quantities during the comparable period of 1999. The Company recorded sales of \$28.1 million of its Rule 35™ golf balls in the first nine months of 2000. This product was not sold during the comparable period of the prior year. The overall decrease in sales of metal woods of 8% to \$346.2 million represents a decrease in both unit and dollar sales of titanium and non-current metal woods, offset by an increase in unit and dollar sales of stainless steel metal woods. The overall decrease in sales of metal woods is primarily attributable to sales of non-current products in the first nine months of 1999, which did not occur in significant quantities during the comparable period of 2000, and to a decrease in sales of Great Big Bertha® Hawk Eye® Titanium Metal Woods during the first nine months of 2000 from the comparable period of 1999. However, sales of ERC™ Forged Titanium Drivers, which began shipping in significant quantities in the second quarter of 2000, partially offset the decrease in sales of titanium metal woods. Also partially offsetting the decrease in sales of titanium metal woods was an increase in sales of stainless steel metal woods attributable to the January 2000 introduction of Steelhead Plus™ Stainless Steel Metal Woods, which generated higher revenues in the first nine months of 2000 than its predecessor, Steelhead™ Stainless Steel Metal Woods, did in the comparable period of 1999.

Net sales reflect the effect of a reclassification of shipping revenues from "selling" expenses. This reclassification, which added \$4.7 million and \$3.7 million to sales during the nine months ended September 30, 2000 and 1999, respectively, was required by EITF 00-10 and did not result in a change in the Company's earnings or earnings per share for either period.

During the first nine months of 2000, sales increased in all regions as compared with the same period during 1999. Sales in the United States increased \$39.1 million (11%) to \$382.3 million during the first nine months of 2000 versus the first nine months of 1999 and sales in Europe increased \$12.1 million (12%) to \$112.5 million during this same period. Sales in Japan increased \$36.4 million (62%) to \$95.6 million and sales in the Rest of Asia increased \$11.9 million (22%) to \$66.7 million in the first nine months of 2000 as compared with the first nine months of 1999. Sales in the regions comprising the Rest of World increased \$2.9 million (6%) to \$47.7 million in the first nine months of 2000 versus the first nine months of 1999.

For the nine months ended September 30, 2000, cost of goods sold increased to \$364.8 million from \$323.5 million in the comparable period of 1999, and as a percentage of net sales improved to 52% from 54%. These amounts reflect the reclassification of shipping expense from "selling" expense that resulted from the application of EITF 00-10. This reclassification added \$9.0 million and \$6.8 million to cost of goods sold in the first nine months of 2000 and 1999, respectively. The overall decrease in cost of goods sold as a percentage of net sales is attributable to a substantial improvement in cost of goods sold of golf club products to 48% of net sales in the first nine months of 2000 from 54% of net sales in the comparable period of 1999, partially offset by costs associated with manufacturing the Company's new golf balls. The improved cost of goods sold as a percentage of net sales for golf club products in the nine months of 2000 is due primarily to reductions in manufacturing labor and overhead expenses, a favorable product sales mix primarily related to sales of ERC™ Forged Titanium Drivers and the negative effect that close-out sales at substantially reduced prices during the first nine months of 1999 had on that period's cost of goods sold as a percentage of net sales. Cost of goods sold for the Company's golf ball products during the first nine months of 2000 was adversely affected by plant utilization and production yields.

Selling expenses in the nine months ended September 30, 2000 increased to \$131.8 million (19% of net sales) from \$95.7 million (16% of net sales) in the comparable period of 1999, and include the reclassification of shipping revenue and expense which were previously recorded in "selling" expense. The effect of this reclassification reduced selling expenses by \$4.3 million and \$3.1 million for the nine months ended September 30, 2000 and 1999, respectively. The increase in selling expenses was primarily attributable to incremental expenses associated with the launch of the Company's Rule 35™

golf balls and with expanded golf club sales activity in the Company's Japanese subsidiary. Prior to 2000, Callaway Golf® products were sold in Japan through a third party distributor. Expenses related to product endorsement also contributed to the increase.

General and administrative expenses in the nine months of 2000 decreased to \$55.8 million (8% of net sales) from \$67.4 million (11% of net sales) in the comparable period of 1999. This decrease is primarily attributable to the shifting of costs associated with the Company's golf ball pre-production period to cost of goods sold (i.e., the costs related to the production of golf balls during the period are now included in cost of goods sold rather than general and administrative expenses) and to reductions in legal and consulting fees. This decrease was partially offset by an increase in bad debt expense associated with the write-off of uncollectible accounts.

Research and development expenses for the nine months ended September 30, 2000 increased to \$26.2 million (4% of net sales) from \$25.4 million (4% of net sales) in the comparable period of 1999. This increase is primarily attributable to an increase in employee costs, partially offset by decreases in depreciation expense and overhead costs.

Other income in the first nine months of 2000 increased to \$6.4 million from \$0.8 million in the comparable period of 1999. This increase is primarily attributable to lower interest expense and increases in interest income and royalty income.

For the nine months ended September 30, 2000, the Company recorded a provision for income taxes of \$52.1 million and recognized a decrease in deferred taxes of \$3.6 million. The provision of income tax as a percentage of income before tax for the nine months ended September 30, 2000 and 1999 was 39%. During the first nine months of 2000, the Company realized \$5.0 million in tax benefits related to the exercise of employee stock options.

## LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2000, cash and cash equivalents increased to \$121.6 million from \$112.6 million at December 31, 1999. This increase resulted primarily from cash provided by operations of \$95.1 million, partially offset by cash used in financing and investing activities of \$64.1 million and \$21.4 million, respectively. Cash flows provided by operations reflect increases in income taxes payable, accrued employee compensation and benefits, and accrued warranty expense. Cash flows from operations were reduced by increases in accounts receivable and inventory. Cash flows used in financing activities are primarily attributable to the

acquisition of 4.3 million shares of Treasury Stock and to dividends paid, partially offset by cash flows from the issuance of Common Stock. Cash flows used in investing activities are primarily attributable to capital expenditures.

The Company's principal source of liquidity, both on a short-term and long-term basis, has been cash flow provided by operations and the Company's credit facilities. The Company currently expects this trend to continue. The Company has a revolving credit facility for up to \$120.0 million (the "Amended Credit Agreement") and an \$80.0 million accounts receivable securitization facility (the "Accounts Receivable Facility") (see Notes 4 and 5 to the unaudited Consolidated Condensed Financial Statements). During the first nine months of 2000, the Company did not utilize either its Accounts Receivable Facility or its line of credit under the Amended Credit Agreement. At September 30, 2000, the Company had \$118.2 million available, net of outstanding letters of credit, under the Amended Credit Agreement, subject to meeting certain availability requirements under a borrowing base formula and other limitations. Also at September 30, 2000, there were no advances under the Accounts Receivable Facility, leaving up to \$80.0 million available under this facility.

On May 3, 2000, the Company announced that its Board of Directors authorized it to repurchase its Common Stock in the open market or in private transactions, subject to the Company's assessment of market conditions and buying opportunities from time to time, up to a maximum cost to the

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Company of \$100.0 million. The Company began its repurchase program in May 2000. Since the inception of this repurchase program (in May 2000) through September 30, 2000, the Company has spent a total of \$71.5 million to repurchase 4.3 million shares of its Common Stock at an average cost of \$16.83 per share. Pursuant to the authority granted in May 2000, the Company may purchase up to \$28.5 million in additional shares by December 31, 2000. If the Company continues to repurchase its Common Stock under this program and/or under any future programs, the Company's liquidity would decrease. However, the acquisition of Treasury Stock under this or future repurchase programs could materially impact the Company's earnings per share in a positive manner.

As a result of the implementation of its plan to improve operating efficiencies (see "Restructuring" below), the Company incurred charges of \$54.2 million in the fourth quarter of 1998. Of these charges, \$25.5 million were estimated to be non-cash. Since the adoption of this restructuring plan in the fourth quarter of 1998, the Company has made cash outlays for employee termination costs, contract cancellation fees, excess lease costs and other expenses totaling \$20.2 million, of which \$1.4 million occurred in 2000. A portion of certain restructuring reserves totaling \$8.6 million was reversed during 1999. At September 30, 2000, the Company had a contingent liability that expires in February 2003 of \$6.2 million relating to a facility in New York City (see Note 7 to the unaudited Consolidated Condensed Financial Statements).

Although the Company's golf club operations are mature and historically have generated cash from operations, the Company's golf ball operations are in their first year of operations and to date have not generated cash flows sufficient to fund these operations. The Company does not expect that its golf ball operations will generate sufficient cash to fund these operations for the remainder of 2000 or in 2001. However, based upon its current operating plan, analysis of its consolidated financial position and projected future results of operations, the Company believes that its operating cash flows, together with its credit facilities, will be sufficient to finance current operating requirements, including planned capital expenditures and purchase commitments. There can be no assurance, however, that future industry specific or other developments, or general economic trends, will not adversely affect the Company's operations or its ability to meet its future cash requirements.

## RESTRUCTURING

During the fourth quarter of 1998, the Company recorded a restructuring charge of \$54.2 million resulting from a number of cost reduction actions and operational improvements. These actions included the consolidation of the operations of the Company's wholly-owned subsidiary, Odyssey Golf, Inc. ("Odyssey"), into the operations of the Company while maintaining the distinct and separate Odyssey® brand image; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. The restructuring charges primarily related to: 1) the elimination of job responsibilities, resulting in costs incurred for employee severance; 2) the decision to exit certain non-core business activities, resulting in losses on disposition of assets, as well as excess lease costs; and 3) consolidation of the Company's continuing operations resulting in impairment of assets, losses on disposition of assets and excess lease costs. During 1999, the Company completed its restructuring initiatives. At September 30, 2000, there was no remaining reserve balance. The decrease in the reserve balance since December 31, 1999 of \$1.4 million represents cash paid for excess lease costs. The Company also has a contingent liability related to this facility (See Note 7 to the unaudited Consolidated Condensed Financial Statements).

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## CERTAIN FACTORS AFFECTING CALLAWAY GOLF

### Sales

*Golf Clubs.* The Company believes that since 1997 the overall worldwide premium golf club market has generally not experienced substantial growth in dollar volume from year to year. There is no assurance that the overall dollar volume of the worldwide premium golf club market will grow, or that it will not decline, in the near future. The Company's future sales growth may be limited unless there is growth in the worldwide premium golf club market.

Overall sales of the Company's current club products were strong during the first three quarters of 2000, and the Company's brands remained number one in the U.S. and the worldwide market for woods, irons and putters. No assurances can be given, however, that market conditions, the demand for the Company's existing products, or the introduction of new products will permit the Company to experience growth in sales, or maintain historical levels of sales, in the future. In addition, if the Company were to experience delays, difficulties or increased costs in its production of golf clubs, including production of new products needed to replace current products, the Company's future golf club sales could be adversely affected.

The Company previously reported that there would be a delay in the recording of revenues for sales in Japan as compared to prior periods because revenue is now recorded upon sale to retailers and not upon sale to its former third party distributor, Sumitomo Rubber Industries, Ltd. ("Sumitomo"). See below "Certain Factors Affecting Callaway Golf-International Distribution." The Company believes that such delayed recording of revenues negatively affected sales in Japan in the first quarter of 2000, which declined 15% as compared to the first quarter of 1999. The Company believes that the negative effect of the delayed recording of revenue is limited to the first quarter of 2000. The Company does not believe that the delayed recording of revenues affected materially its second or third quarter performance and does not expect it to affect materially its future performance.

*Golf Balls.* In 1996, the Company formed Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, for the purpose of designing, manufacturing and selling golf balls. In February 2000, the Company introduced its new Rule 35™ golf balls. The development of the Company's golf ball business has had a significant negative impact on the Company's cash flows, financial position and results of operations and will continue to affect negatively the Company's performance in 2000 and into 2001. The pre-tax loss generated by the Company's golf ball operations, before corporate allocations, was approximately \$38.1 million in the first three quarters of 2000, and the Company expects that its golf ball operations will generate additional pre-tax losses in the remaining part of the year.

Although initial demand for the Company's golf balls is promising, there is no assurance that such demand will result in a proportionate amount of actual sales or that consumers will enjoy the balls sufficiently to sustain future sales. Moreover, the success of the Company's new golf ball business could be adversely affected by various factors, including, among others, delays, difficulties or increased costs in manufacturing or in distribution of the golf balls. To date, the Company has experienced higher than expected production costs attributable to yield and other ramp-up issues. Although the Company has resolved some of these issues, others remain. The Company is aggressively seeking solutions to these issues and expects production of the golf balls to continue to increase as these issues are resolved. There is no assurance, however, that the Company will be able to manufacture enough balls to meet future demand or be able to achieve the operational or sales efficiencies necessary to make its golf ball business profitable. Consequently, there can be no assurance as to whether the golf ball will be commercially successful or that a return on the Company's investment will ultimately be realized. Furthermore, if these issues are not resolved satisfactorily in a timely manner, the Company's results of operations, cash flows and financial position will continue to be negatively affected.

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### *Gross Margin*

Consumer acceptance of current and new products, the sale and disposal of non-current products at reduced sales prices, the sales mix of the Company's high and low margin products (e.g. irons generally have lower margins than woods) and continuing pricing pressure from competitive market conditions may have an adverse effect on the Company's future sales and gross margin. The Company's margins also have been negatively affected by its golf ball business, and the Company expects that its golf ball business will continue to affect negatively its margins for the remainder of 2000 and into 2001. *See above "Certain Factors Affecting Callaway Golf—Sales."*

### *Seasonality*

In the golf club and golf ball industries, sales to retailers are generally seasonal due to lower demand in the retail market in the Company's fourth quarter and, to a lesser extent, the Company's first quarter. The Company's golf club business has generally followed this seasonal trend and the Company expects this to continue generally for both its golf club and golf ball businesses. Although the Company has realized operational improvements in its golf ball business in 2000, expected normal seasonality will limit the positive impact of any of these operational improvements in 2000. Furthermore, unusual or severe weather conditions such as the "El Niño" weather patterns experienced during the winter of 1997 through 1998 may compound or otherwise distort these seasonal effects.

### *Competition*

The worldwide market for premium golf clubs is highly competitive, and is served by a number of well-established and well-financed companies with recognized brand names, as well as new companies with popular products. New product introductions, price reductions and "close-outs" 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.

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

The premium golf ball business is also highly competitive, and may be becoming even more competitive. There are a number of well-established and well-financed competitors, including one competitor with an estimated market share in excess of 50% of the premium golf ball business. There are also several recent entrants into the golf ball business, including Nike. Many of these competitors have introduced or will introduce golf ball designs that directly compete with the Company's products. The Company will need to penetrate the market share held by existing competitors while competing with the other new entrants in order for its golf ball business to be successful. Although initial sales of the Company's golf balls are promising, there can be no assurance that the Company's golf balls will obtain the market acceptance necessary to be commercially successful.

### *Manufacturing Capacity*

The Company plans its manufacturing capacity based upon the forecasted demand for its products. Actual demand for such products may exceed or be less than forecasted demand. The Company's unique product designs often require sophisticated manufacturing techniques, which can require significant start-up expenses and/or limit the Company's ability to quickly expand its manufacturing capacity to meet the full demand for its products. If the Company is unable to produce sufficient

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quantities of new products in time to fulfill actual demand, especially during the Company's traditionally busy quarters, it could limit the Company's sales and adversely affect its financial performance. On the other hand, the Company invests in capacity and commits to components and other manufacturing inputs for varying periods of time, which can limit the Company's ability to quickly react if actual demand is less than forecast. As in 1998, this could result in less than optimum capacity usage and/or in excess inventories and related obsolescence charges that could adversely affect the Company's financial performance.

### *New Product Introduction*

The Company believes that the introduction of new, innovative golf clubs and golf balls is important to its future success. The Company faces certain risks associated with such a strategy. For example, new models and basic design changes in golf equipment are frequently met with consumer rejection. In addition, prior successful designs may be rendered obsolete within a relatively short period of time as new products are introduced into the marketplace. Further, any new products that retail at a lower price than prior products may negatively impact the Company's revenues unless unit sales increase.

The Company's new products have tended to incorporate significant innovations in design and manufacture, which have often resulted in higher prices for the Company's products relative to other products in the marketplace. For example, the Company's golf balls are premium golf balls and there are many lower priced non-premium golf balls sold by others. There can be no assurance that a significant percentage of the public will always be willing to pay such premium prices for golf equipment or that the Company will be able to continue to design and manufacture premium products that achieve market acceptance in the future.

The rapid introduction of new golf club or golf ball products by the Company could result in close-outs of existing inventories at both the wholesale and retail levels. Such close-outs can result in reduced margins on the sale of older products, as well as reduced sales of new products, given the availability of older products at lower prices. The Company experienced some of these effects in 1999 with respect to golf clubs and could experience similar effects in future years as the Company from time to time introduces new golf club or golf ball products or misjudges demand.

It previously was the Company's practice to announce its new product line at the beginning of each calendar year. The Company recently departed from that practice and announced its 2001 product line at a press conference on October 18, 2000. Such an early announcement could cause golfers, and therefore the Company's customers, to defer purchasing new golf equipment until the Company's new products are available. Such deferrals could have a material adverse effect upon sales of the Company's current products for the fourth quarter of 2000 and/or result in close-out sales at reduced prices.

#### *Conformance with Rules of Golf*

New golf club and golf ball products generally seek to 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. The USGA rules are generally followed in the United States and Mexico and the R&A rules are generally followed in most other countries throughout the world. Currently, the Rules of Golf as published by the R&A and the USGA are virtually the same except with respect to the regulation of "driving clubs." In 1998, the USGA adopted a so-called "spring-like effect test" that limits the coefficient of restitution ("COR") of drivers. The R&A has announced that it does not believe that such a limitation is needed or in the best interests of the game of golf, and has not adopted such a test or other performance limitation on drivers.

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Some countries, such as Japan and Canada, have local golf associations that exert some control over the game of golf within their jurisdictions. The Royal Canadian Golf Association ("RCGA") has announced that it will generally follow the USGA with respect to equipment rules. So far, no other local organization within the R&A's general jurisdiction has deviated from the R&A's position with respect to equipment rules.

Currently, all of the Company's products are believed to be "conforming" under the Rules of Golf as published by the R&A. In addition, all of the Company's products with the exception of the Company's ERC™ II Forged Titanium Driver (together with its predecessor, the ERC Forged Titanium Driver, the "ERC Drivers"), are believed to be "conforming" under the Rules of Golf as published by the USGA and RCGA. Although the ERC Drivers conform to all existing R&A equipment rules, and most existing USGA and RCGA equipment rules, they do not conform to the USGA's so-called "spring-like effect" test protocol. There is no assurance that new designs will receive USGA and/or R&A approval, or that existing USGA and/or R&A standards will not be altered in ways that adversely affect the sales of the Company's products.

On October 18, 2000, the Company announced that it intended to sell its ERC II Forged Titanium Driver in the U.S. despite the fact that it will be ruled to be non-conforming by the USGA. To the Company's knowledge, it is the first large, premium brand golf equipment company to sell non-conforming equipment in the U.S. By undertaking this approach, the Company hopes to expand participation in the game of golf in the United States—the source of approximately 55% of the Company's revenues—by making the game more enjoyable and accessible for more people, including those people who play the game primarily for fun, enjoyment and recreation. While the Company believes that this is the best strategy for the Company and its stockholders, and one that is good for the game of golf as well, the strategy is not without risk. It is possible that a significant number of U.S. retailers may decline to carry a non-conforming product such as the ERC II Driver. It is also possible that a significant number of U.S. golfers may decide that they do not wish to purchase a driver that may not be used in competitions in the U.S. played subject to the USGA's rules. Retailer and/or consumer backlash against the introduction of a non-conforming product may injure sales of other, conforming products, or otherwise damage the brand. These negative effects, if they materialize, could materially reduce U.S. sales of ERC II Drivers and other products in 2001 and in future years, and could even negatively affect in a material way the strength of the brand and the Company's business overseas despite the fact that the ERC II Driver fully conforms with the R&A's Rules. On the other hand, if the Company is correct in its belief that there are a large number of American golfers who do not play in tournaments subject to the USGA's Rules and are prepared to purchase a non-conforming driver for use in recreational play, and/or the Company's strategy is successful over time in attracting more people to the game of golf in the U.S., then the beneficial effects could be significant.

#### *Product Returns*

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

The Company monitors the level and nature of any golf club breakage and, where appropriate, seeks to incorporate design and production changes to assure its customers of the highest quality available in the market. Significant increases in the incidence of breakage or other product problems may adversely affect the Company's sales and image with golfers. While the Company believes that it has sufficient reserves for warranty claims, there can be no assurance that these reserves will be

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sufficient if the Company were to experience an unusually high incidence of breakage or other product problems.

During the first quarter of 2000, the Company began selling its Rule 35™ golf balls. To date, the Company has not experienced significant returns of defective golf balls, and in light of the quality control procedures implemented in the production of its golf balls, the Company does not expect a significant amount of defective ball returns. If there were a significant amount, however, it could have a material adverse effect upon its golf ball business.

#### *Credit Risk*

The Company primarily sells its products to golf equipment retailers, wholly-owned domestic and foreign subsidiaries and foreign distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from these customers. Historically, the Company's bad debt expense has been low. However, a downturn in the retail golf equipment market, like the one experienced in 1998 and 1999, primarily in the U.S., could result in increased delinquent or uncollectible accounts for some of the Company's significant customers. In addition, the Company's transition in Japan from selling to one distributor to selling directly to many retailers could increase the Company's delinquent or uncollectible accounts. There can be no assurance that failure of the Company's customers to meet their obligations to the Company will not adversely impact the Company's results of operations, financial position or cash flows.

#### *Dependence on Certain Vendors and Materials*

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

The Company is also dependent on a limited number of suppliers for the materials it uses to make its golf balls. Many of the materials, including the golf ball cover, are customized for the Company. Any delay or interruption in such supplies could have a material adverse impact upon the Company's golf ball business. If the Company did experience any such delays or interruptions, there is no assurance that the Company would be able to find adequate alternative suppliers at a reasonable cost or without significant disruption to its business.

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

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

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#### *Intellectual Property and Proprietary Rights*

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

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

Various patents have been issued to the Company's competitors in the golf ball industry. As the Company developed its Rule 35™ golf ball, it attempted to avoid infringing valid patents or other intellectual property rights. Despite these attempts, it cannot be guaranteed that competitors will not assert and/or a court will not find that the Rule 35 golf ball infringes any patent or other rights of competitors (see Part II, Item I—Legal Proceedings). If the Rule 35 golf ball is found to infringe on protected technology, there is no assurance that the Company would be able to obtain a license to use such technology, and it could incur substantial costs to redesign it and/or defend legal actions.

The Company has procedures to maintain the secrecy of its confidential business information. These procedures include criteria for dissemination of information and written confidentiality agreements with employees and vendors. Suppliers, when engaged in joint research projects, are required to enter into additional confidentiality agreements. While these efforts are taken seriously, there can be no assurance that these measures will prove adequate in all instances to protect the Company's confidential information.

#### *"Gray Market" Distribution*

Some quantities of the Company's products find their way to unapproved outlets or distribution channels. This "gray market" for the Company's products can undermine authorized retailers and foreign wholesale distributors who promote and support the Company's products, and can injure the Company's image in the minds of its customers and consumers. On the other hand, stopping such commerce could result in a potential decrease in sales to those customers who are selling Callaway Golf® products to unauthorized distributors and/or an increase in sales returns over historical levels. For example, the Company experienced a decline in sales in the U.S. in 1998, and believes the decline was due, in part, to a decline in "gray market" shipments to Asia and Europe. While the Company has taken some lawful steps to limit commerce in its products in the "gray market" in both the U.S. and abroad, it has not stopped such commerce.

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#### *Golf Professional Endorsements*

The Company establishes relationships with professional golfers in order to evaluate and promote Callaway Golf® and Odyssey® branded products. The Company has entered into endorsement arrangements with members of the various professional tours, including the Senior PGA Tour, the PGA Tour, the LPGA

Tour, the PGA European Tour, the Japan Golf Tour and the buy.com Tour. While most professional golfers fulfill their contractual obligations, some have been known to stop using a sponsor's products despite contractual commitments. If certain of the Company's professional endorsers were to stop using the Company's products contrary to their endorsement agreements, the Company's business could be adversely affected in a material way by the negative publicity.

Many professional golfers throughout the world use the Company's golf clubs even though they are not contractually bound to do so and do not grant any endorsement to the Company. The Company has created cash pools ("Pools") that reward such usage. However, in 1999 and so far in 2000, as compared to 1998, the Company significantly reduced these Pools for both Callaway Golf® and Odyssey® brand products for the PGA and the Senior PGA Tours, and has significantly reduced the Pools for Odyssey® brand products and eliminated the Pools for Callaway Golf® brand products for the LPGA and buy.com tours. The Pools for 2000 have been comparable to 1999. In addition, many other companies are aggressively seeking the patronage of these professionals, and are offering many inducements, including specially designed products and significant cash rewards. As a result, in 1999 and so far in 2000, usage of the Company's drivers on the Senior PGA, PGA, LPGA and buy.com tours was substantially reduced compared to 1998.

In the past, the Company has experienced an exceptional level of driver penetration on the world's major professional tours, and the Company has heavily advertised that fact. While it is not clear to what extent professional usage contributes to retail sales, it is possible that a decline in the level of professional usage of the Company's products could have a material adverse effect on the Company's business.

Many golf ball manufacturers, including the leading U.S. manufacturer of premium golf balls, have focused a great deal of their marketing efforts on promoting the fact that tour professionals use their balls. Some of these golf ball competitors spend large amounts of money to secure professional endorsements, and the market leader has obtained a very high degree of tour penetration. While many of the Company's staff professionals have decided to use the Company's golf balls in play, there are others who are already under contract with other golf ball manufacturers or, for other reasons, may not choose to play the Company's golf ball products. In addition, some professionals who are not on the Company's staff have used the Company's golf balls in play, but there is no assurance they will continue to do so and no assurance that other non-staff professionals will decide to play the Company's balls. The Company does not plan to match the endorsement spending levels of the leading manufacturer, and will instead rely more heavily upon the performance of the ball and other factors to attract professionals to the product. In the future the Company may or may not increase its tour spending in support of the golf ball. It is not clear to what extent use by professionals is important to the commercial success of the Company's golf ball, but it is possible that the results of the Company's golf ball business could be significantly affected by its success or lack of success in securing acceptance on the professional tours.

#### *International Distribution*

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

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receivable, corporate infrastructure and facilities. The integration of foreign distribution into the Company's international sales operations will continue to require the dedication of management and other Company resources.

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

The Company previously appointed Sumitomo as the sole distributor of Callaway Golf® clubs in Japan, through a distribution agreement that ended December 31, 1999. In 1999, 1998 and 1997, sales to Sumitomo accounted for 7%, 8% and 10%, respectively, of the Company's net sales. In the fourth quarter of 1999, the Company successfully completed negotiations with Sumitomo to provide a smooth transition of its business. Effective January 1, 2000, the Company began distributing Callaway Golf® brand products through Callaway Golf K. K., which also distributes Odyssey® products and Callaway Golf™ balls. There are significant risks associated with the Company's intention to effectuate distribution of Callaway Golf products in Japan through Callaway Golf K. K. rather than through Sumitomo. Some of these risks include increased delinquent and uncollectible accounts now that the Company will be collecting its receivables from many retailers as opposed to only one distributor. Furthermore, the Company will no longer have the benefit of the minimum purchases that Sumitomo was required to make. It is possible that these circumstances could have a material adverse effect on the Company's operations and financial performance. Thus far in 2000, these risks have not materialized. However, the Company believes its Japanese subsidiary is still in the early stages of operation.

#### *Information Systems*

Many of the countries in which the Company sells its products are Member States of the Economic and Monetary Union ("EMU"). Beginning January 1, 1999, Member States of the EMU have the option of trading in either their local currencies or the euro, the official currency of EMU participating Member States. Parties are free to choose the unit they prefer in contractual relationships until 2002 when their local currencies will be phased out. The current version of the Company's enterprise-wide business system does not support transactions denominated in euro. The Company is in the process of upgrading its business systems to support transactions denominated in euro. The Company intends to enable the euro functionality of its upgraded system no later than the end of its third quarter in 2001. Until such time as the upgrade has occurred and the euro functionality has been enabled, transactions denominated in euro will be processed manually. To date, the Company has not experienced, and does not anticipate in the near future, a large demand from its customers to transact in euro. Additionally, the Company does not believe that it will incur material costs specifically associated with manually processing data or preparing its business systems to operate in either the transitional period or beyond. However, there can be no assurance that the conversion of EMU Member States to euro will not have a material adverse effect on the Company and its operations.

The Company previously reported that it was in the process of upgrading its enterprise-wide business system to a more current software release and that such upgrade would affect almost all of the Company's major systems functions, including sales, manufacturing, and accounting. The Company has substantially completed the upgrade and the estimated cost to the Company of the upgrade was not material.

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

The Company is exposed to the impact of foreign currency fluctuations due to its international operations and certain export sales. The Company is exposed to both transactional currency/functional currency and functional currency/reporting currency exchange rate risks. In the normal course of business, the Company employs established policies and procedures to manage its exposure to fluctuations in the value of foreign currencies. Pursuant to its foreign exchange hedging policy, the Company may use forward foreign currency exchange rate contracts to hedge certain firm commitments and the related receivables and payables. During the nine months ended September 30, 2000, the Company entered into such contracts on behalf of three of its wholly-owned subsidiaries, Callaway Golf Europe Ltd., Callaway Golf K.K. and Callaway Golf Canada Ltd. The Company also hedged certain euro-denominated accounts receivable during the nine months ended September 30, 2000. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. These foreign exchange contracts generally do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the transactions being hedged, and the Company does not engage in hedging contracts which exceed the amounts of these transactions.

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

Additionally, the Company is exposed to interest rate risk from its Accounts Receivable Facility and Amended Credit Agreement (see Notes 4 and 5 to the Company's unaudited Consolidated Condensed Financial Statements) which are indexed to the LIBOR and Redwood Receivables Corporation Commercial Paper Rate. No amounts were advanced or outstanding under these facilities at September 30, 2000.

Sensitivity analysis is the measurement of potential loss in future earnings of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates or foreign currency values. The Company used a sensitivity analysis model to quantify the estimated potential effect of unfavorable movements of 10% in foreign currencies to which the Company was exposed at September 30, 2000 through its derivative financial instruments.

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

The estimated maximum one-day loss in earnings from the Company's foreign-currency derivative financial instruments, calculated using the sensitivity analysis model described above, is \$1.3 million at September 30, 2000. The Company believes that such a hypothetical loss from its derivatives would be offset by increases in the value of the underlying transactions being hedged.

Notes 4 and 5 to the unaudited Consolidated Condensed Financial Statements outline the principal amounts, if any, and other terms required to evaluate the expected cash flows and sensitivity to interest rate changes.

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## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

The Company, incident to its business activities, is often the plaintiff in 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 or may initiate actions against alleged infringers under the intellectual property laws of various countries, including, for example, the United States Lanham Act, the U.S. Patent Act, and other pertinent laws. Defendants in these actions may, among other things, contest the validity and/or the enforceability of some of the Company's patents and/or trademarks. Others may assert counterclaims against the Company. Based upon the Company's experience, the Company believes that the outcome of these matters individually and in the aggregate will not have a material adverse effect upon the financial position or results of operations of the Company. It is possible, however, that in the future one or more defenses or claims asserted by defendants in one or more of those actions may succeed, resulting in the loss of all or part of the rights under one or more patents, loss of a trademark, a monetary award against the Company, or some other loss to the Company. One or more of these results could adversely affect the Company's overall ability to protect its product designs and ultimately limit its future success in the marketplace.

In addition, the Company from time to time receives information claiming that products sold by the Company infringe or may infringe patent or other intellectual property rights of third parties. To date, the Company has not experienced any material expense or disruption associated with any such potential infringement matters. It is possible, however, that 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 July 24, 2000, Bridgestone Sports Co., Ltd. ("Bridgestone") filed a complaint for patent infringement in the United States District Court for the Northern District of Georgia, Civil Action No. 100-CV-1871, against Callaway Golf Company, Callaway Golf Ball Company (collectively "Callaway Golf"), and a golf retailer located in Georgia. Bridgestone alleges that the manufacture and sale of the Company's Rule 35™ golf ball infringes four U.S. golf ball patents owned by Bridgestone. Bridgestone is seeking unspecified damages and injunctive relief. Callaway Golf Company has denied the allegations and is defending the action. On September 12, 2000, Callaway Golf answered the Complaint, and asserted affirmative counterclaims against Bridgestone seeking a judicial declaration that Callaway Golf does not infringe the Bridgestone patents, that the patents are invalid, and that Bridgestone engaged in inequitable conduct in the United States Patent and Trademark Office. On October 13, 2000, Bridgestone and the retailer defendant entered into a consent judgment discontinuing the action against the retailer. The parties are engaged in discovery. No trial date has been set by the court.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims, including the Bridgestone matter specifically noted above. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with

respect to these matters. However, management believes, at this time, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

## Item 2. Changes in Securities and Use of Proceeds

None

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## Item 3. Defaults Upon Senior Securities

None

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

None

## Item 5. Other Information

On November 13, 2000, the Company issued a press release entitled, "Ely Callaway to Remain as Callaway Golf CEO and President as the Company Focuses Top Management on Growing the Game of Golf." A copy of the press release is attached as Exhibit 99.1.

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

a.

Exhibits

- 3.1 Certificate of Incorporation, incorporated herein by this reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission (the "Commission") on July 1, 1999 (file no. 1-10962).
- 3.2 Bylaws, incorporated herein by this reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, as filed with the Commission on July 1, 1999 (file no. 1-10962).
- 10.45 Executive Officer Employment Agreement, entered into as of September 1, 2000, by and between the Company and Steven C. McCracken.(†)
- 10.46 Executive Officer Employment Agreement, entered into as of September 1, 2000, by and between the Company and Ronald A. Drapeau.(†)
- 10.47 Executive Officer Employment Agreement, entered into as of July 13, 2000, by and between the Company and Brad Holiday.(†)
- 10.48 Executive Officer Employment Agreement, entered into as of September 1, 2000, by and between the Company and Michael McCormick.(†)
- 10.49 Callaway Golf Company Executive Deferred Compensation Plan (As Amended and Restated Effective August 22, 2000).(†)
- 27.1 Financial Data Schedule.(†)
- 99.1 Press Release dated November 13, 2000. (†)

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(†)

Included with this Report.

b.

Reports on Form 8-K



**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

November 13, 2000

By:                         /s/ BRADLEY J. HOLIDAY

Bradley J. Holiday  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

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**EXHIBIT INDEX**

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None

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## EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of September 1, 2000, by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Company"), and STEVEN C. MCCRACKEN ("Employee").

## 1. TERM.

(a) The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the period commencing September 1, 2000 and terminating December 31, 2003 (the "Initial Term"), unless this Agreement is earlier terminated as hereinafter provided.

(b) On December 31, 2003, and on each December 31 thereafter (the "Extension Dates"), the expiration date of this Agreement shall be automatically extended one (1) year, through December 31 of the following year, so long as (a) this Agreement is otherwise still in full force and effect, (b) Employee is still employed by the Company pursuant to this Agreement, (c) Employee is not otherwise in breach of this Agreement, and (d) neither the Company nor Employee has given notice as provided in Section 1(c) of this Agreement.

(c) At any time prior to an Extension Date, either Employee or the Company may give written notice to the other ("Notice") that the next automatic extension of the expiration date of this Agreement pursuant to Section 1(b) shall be the final such automatic extension of the expiration date of this Agreement. Thus, if either Employee or the Company gives Notice on or before December 31, 2003, and all other conditions for automatic extension of the expiration date of this Agreement pursuant to Section 1(b) exist, then on December 31, 2003, the expiration date of this Agreement shall be extended pursuant to Section 1(b) from December 31, 2003 to December 31, 2004, with this Agreement expiring on that date (if not earlier terminated pursuant to its terms) without any further automatic extensions.

(d) Upon expiration of this Agreement, Employee's status shall be one of at will employment.

## 2. SERVICES.

(a) Employee shall serve as Senior Executive Vice President, Chief Legal Officer and Secretary, of the Company. Employee's duties shall be the usual and customary duties of the offices in which Employee serves. Employee shall report to such person as the Chief Executive Officer shall designate. The Board of Directors and/or the Chief Executive Officer of the Company may change employee's title, position and/or duties at any time.

(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.

(c) The Company and Employee agree that the services being provided by Employee for the Company under the terms of this Agreement are unique and intellectual in character and that the Employee and Company are entering into this Agreement so that the Company will have the exclusive benefit of those services during the entire term of the Agreement and any extensions of the Agreement.

3. SERVICES TO BE EXCLUSIVE. During the term hereof, Employee agrees to devote his or her 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 and its Chief Executive Officer. 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 or otherwise receiving

compensation or other consideration from 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 a base salary at the rate of \$450,000.00 per year.

(b) Effective January 1, 2001, the Company agrees to pay Employee a base salary at the rate of \$500,000.00 per year.

(c) The Company shall provide Employee an opportunity to earn an annual bonus based upon participation in the Company's officer bonus plan as it may or may not exist from time to time. Employee acknowledges that currently all bonuses are discretionary, that the current officer bonus plan does not include any nondiscretionary bonus plan, and that the Company does not currently contemplate establishing any nondiscretionary bonus plan applicable to Employee.

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 and its Chief Executive Officer.

(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 vacation will be carried forward 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, term life insurance coverage on Employee's life, payable to whomever the Employee directs, in the face amount of \$1,000,000.00, provided that Employee's physical condition does not prevent Employee from qualifying for such insurance coverage under reasonable terms and conditions;

(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 senior executive officers. It is understood that benefit plans within the meaning of this subsection do not include compensation or bonus plans.

(d) ESTATE PLANNING AND OTHER PERQUISITES. To the extent the Company provides tax and estate planning and related services, or any other perquisites and personal benefits to other senior executive officers generally from time to time, such services and perquisites shall be made available to Employee on the same terms and conditions.

(e) CLUB MEMBERSHIP. The Company shall pay the reasonable cost of initiation associated with Employee gaining privileges at a mutually agreed upon country club. 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.

6. TAX INDEMNIFICATION. Employee shall be indemnified by the Company for certain excise tax obligations, as more specifically set forth in Exhibit A to this Agreement.

7. NONCOMPETITION.

(a) OTHER BUSINESS. To the fullest extent permitted by law, Employee agrees that, while employed by the Company or otherwise receiving compensation or other consideration from the Company (including any severance pursuant to Section 8 of this Agreement), 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 any of its affiliates, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) OTHER EMPLOYEES. Except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company or any of its affiliates to terminate such employment while employed by the Company and for a period of one (1) year thereafter.

(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 or any of its affiliates 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.

(e) NON-INTERFERENCE. While employed by the Company, and for one (1) year thereafter, Employee shall not in any way undertake to harm, injure or disparage the Company, its officers, directors, employees, agents, affiliates, vendors, products, or customers, or their successors, or in any other way exhibit an attitude of hostility toward them. Employee understands that it is the policy of the Company that only the Chief Executive Officer, the Vice President of Press, Public and Media Relations and their specific designees may speak to the press or media about the Company or its business, and agrees not to interfere with the Company's press and public relations by violating this policy.

8. 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. In the event of a termination by the Company for its convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's then current 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 twenty-four (24) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (iii) no other severance.

(b) 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 failure by Employee to substantially perform his or her duties, breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of illegal drugs during work, and/or felony criminal conduct.

(c) 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; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's then current 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 twenty-four (24) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company.

(d) 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. Permanent disability shall be defined as Employee's failure to perform or being unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of more than six (6) months on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three qualified physicians, one of which has been selected by the Company, one of which has been selected by Employee, and one of which has been selected by the two other physicians jointly. 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) severance payments equal to Employee's then current 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 twenty-four (24) months from the date of termination; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; (iv) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (v) no other severance. The Company shall be entitled to take, as an offset against any amounts due pursuant to subsections (i) and (ii) above, any amounts received by Employee pursuant to disability or other insurance, or similar sources, provided by the Company.

(e) TERMINATION DUE TO DEATH. Employee's employment under this Agreement shall be terminated immediately by the Company in the event of Employee's death. In the event of a termination due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of death; (ii) severance payments equal to Employee's then current base salary at the same rate and on the same schedule as in effect at the time of death for a period of time equal to the greater of the remainder of the term of this Agreement or six (6) months from the date of death; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of the date of death in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's death; and (iv) no other severance.

(f) 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. 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 or her 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 regarding any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(g) 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.

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

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

(a) If a Change in Control (as defined in Exhibit B hereto) occurs before the termination of Employee's employment hereunder, then this Agreement shall be automatically renewed (the "Renewed Employment Agreement") in the same form and substance as in effect immediately prior to the Change in Control, except that the Initial Term, as specified pursuant to Section 1 of this Agreement, shall be three (3) years commencing with the effective date of the Change in Control, and the Extension Dates shall commence with the second anniversary of the effective date of the Change in Control.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one (1) 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 treated as if he or she had been terminated for the convenience of the Company pursuant to Section 8(a), and Employee shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a), as appropriate, of this Agreement. Furthermore, the provisions of Section 8 shall continue to apply during the term of the Renewed 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.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of the Employee's permanent disability (defined in Section 8(d)), Employee's

death, and any of the factors enumerated in Section 8(b) providing for termination by the Company for substantial cause:

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

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

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

(iv) any reduction, limitation or failure to pay or provide any of the compensation, reimbursable expenses, 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 or she had immediately prior to the Change in Control.

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

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. TRADE SECRETS AND CONFIDENTIAL INFORMATION.

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

(b) Notwithstanding the provisions of subsection 12(a), the term "Trade Secrets and Confidential Information" does not include (i) information which, at the time of disclosure or observation, had been previously published or otherwise publicly disclosed; (ii) information which is published (or otherwise publicly disclosed) after disclosure or observation, unless such publication is a breach of this



Agreement or is otherwise a violation of contractual, legal or fiduciary duties owed to the Company, which violation is known to Employee; or (iii) information which, subsequent to disclosure or observation, 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 who is not required to refrain from disclosing such information to others.

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

(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. ASSIGNMENT OF RIGHTS.

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

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

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

(d) Pursuant to California Labor Code Section 2870, the obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation to the extent such obligation would conflict with any state or federal law. The obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation that Employee developed entirely on Employee's own time without using the Company's equipment, supplies, facilities or Trade Secrets and Confidential Information except those Designs, Inventions or Innovations that either:

(i) Relate at the time of conception or reduction to practice to the Company's and/or its affiliates' business, or actual or demonstrably anticipated research of the Company and/or its affiliates; or

(ii) Result from any work performed by Employee for the Company and/or its affiliates.

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

(f) The provisions of this Section 13 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

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. 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 incurred in such action or proceeding.

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. 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: Steven C. McCracken  
5186 Cheltenham Terrace  
San Diego, California 92130

Company: Callaway Golf Company  
2285 Rutherford Road  
Carlsbad, California 92008-8815  
Attn: Ely Callaway  
Chairman and Chief Executive Officer

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

18. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) EMPLOYEE AND THE COMPANY AGREE THAT ANY DISPUTE, CONTROVERSY OR CLAIM ARISING HEREUNDER OR IN ANY WAY RELATED TO THIS AGREEMENT, ITS INTERPRETATION, ENFORCEABILITY, OR APPLICABILITY, OR RELATING TO EMPLOYEE'S EMPLOYMENT, OR THE TERMINATION THEREOF, THAT CANNOT BE RESOLVED BY MUTUAL AGREEMENT OF THE PARTIES SHALL BE SUBMITTED TO BINDING ARBITRATION. THIS INCLUDES, BUT IS NOT LIMITED TO, ALLEGED VIOLATIONS OF FEDERAL, STATE AND/OR LOCAL STATUTES, CLAIMS BASED ON ANY PURPORTED BREACH OF DUTY ARISING IN CONTRACT OR TORT, INCLUDING BREACH OF CONTRACT, BREACH OF THE COVENANT OF GOOD FAITH AND FAIR DEALING, VIOLATION OF PUBLIC POLICY, VIOLATION OF ANY STATUTORY, CONTRACTUAL OR COMMON LAW RIGHTS, BUT EXCLUDING WORKERS' COMPENSATION, UNEMPLOYMENT MATTERS, OR ANY MATTER FALLING WITHIN THE JURISDICTION OF THE STATE LABOR COMMISSIONER. THE PARTIES AGREE THAT ARBITRATION IS THE PARTIES' ONLY RECOURSE FOR SUCH CLAIMS AND HEREBY WAIVE THE RIGHT TO PURSUE SUCH CLAIMS IN ANY OTHER FORUM, UNLESS OTHERWISE PROVIDED BY LAW. ANY COURT ACTION INVOLVING A DISPUTE WHICH IS NOT SUBJECT TO ARBITRATION SHALL BE STAYED PENDING ARBITRATION OF ARBITRABLE DISPUTES.

(b) EMPLOYEE AND THE COMPANY AGREE THAT THE ARBITRATOR SHALL HAVE THE AUTHORITY TO ISSUE PROVISIONAL RELIEF. EMPLOYEE AND THE COMPANY FURTHER AGREE THAT EACH HAS THE RIGHT, PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 1281.8, TO APPLY TO A COURT FOR A PROVISIONAL REMEDY IN CONNECTION WITH AN ARBITRABLE DISPUTE SO AS TO PREVENT THE ARBITRATION FROM BEING RENDERED INEFFECTIVE.

(c) ANY DEMAND FOR ARBITRATION SHALL BE IN WRITING AND MUST BE COMMUNICATED TO THE OTHER PARTY PRIOR TO THE EXPIRATION OF THE APPLICABLE STATUTE OF LIMITATIONS.

(d) THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE PROCEDURAL RULES STATED IN THE NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA"). THE ARBITRATION SHALL BE CONDUCTED IN SAN DIEGO BY A FORMER OR RETIRED JUDGE OR ATTORNEY WITH AT LEAST 10 YEARS EXPERIENCE IN EMPLOYMENT-RELATED DISPUTES, OR A NON-ATTORNEY WITH LIKE EXPERIENCE IN THE AREA OF DISPUTE, WHO SHALL HAVE THE POWER TO HEAR MOTIONS, CONTROL DISCOVERY, CONDUCT HEARINGS AND OTHERWISE DO ALL THAT IS NECESSARY TO RESOLVE THE MATTER. THE PARTIES MUST MUTUALLY AGREE ON THE ARBITRATOR. IF THE PARTIES CANNOT AGREE ON THE ARBITRATOR AFTER THEIR BEST EFFORTS, AN ARBITRATOR FROM THE AMERICAN ARBITRATION ASSOCIATION WILL BE SELECTED PURSUANT TO THE AMERICAN ARBITRATION ASSOCIATION NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES. THE COMPANY SHALL PAY THE COSTS OF THE ARBITRATOR'S FEES.

(e) THE ARBITRATION WILL BE DECIDED UPON A WRITTEN DECISION OF THE ARBITRATOR STATING THE ESSENTIAL FINDINGS AND CONCLUSIONS UPON WHICH THE AWARD IS BASED. THE ARBITRATOR SHALL HAVE THE AUTHORITY TO AWARD DAMAGES, IF ANY, TO THE EXTENT THAT THEY ARE AVAILABLE UNDER APPLICABLE LAW(S). THE ARBITRATION AWARD SHALL BE FINAL AND BINDING, AND MAY BE ENTERED AS A JUDGMENT IN ANY COURT HAVING COMPETENT JURISDICTION. EITHER PARTY MAY SEEK REVIEW PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 1286, ET SEQ.

(f) IT IS EXPRESSLY UNDERSTOOD THAT THE PARTIES HAVE CHOSEN ARBITRATION TO AVOID THE BURDENS, COSTS AND PUBLICITY OF A COURT PROCEEDING, AND THE ARBITRATOR IS EXPECTED TO HANDLE ALL ASPECTS OF THE MATTER, INCLUDING DISCOVERY AND ANY HEARINGS, IN SUCH A WAY AS TO MINIMIZE THE EXPENSE, TIME, BURDEN AND PUBLICITY OF THE PROCESS, WHILE ASSURING A FAIR AND JUST RESULT. IN PARTICULAR, THE PARTIES EXPECT THAT THE ARBITRATOR WILL LIMIT DISCOVERY BY CONTROLLING THE AMOUNT OF DISCOVERY THAT MAY BE TAKEN (E.G., THE NUMBER OF DEPOSITIONS OR INTERROGATORIES) AND BY RESTRICTING THE SCOPE OF DISCOVERY ONLY TO THOSE MATTERS CLEARLY RELEVANT TO THE DISPUTE. HOWEVER, AT A MINIMUM, EACH PARTY WILL BE ENTITLED TO AT LEAST ONE DEPOSITION AND SHALL HAVE ACCESS TO ESSENTIAL DOCUMENTS AND WITNESSES AS DETERMINED BY THE ARBITRATOR.

(g) THE PREVAILING PARTY SHALL BE ENTITLED TO AN AWARD BY THE ARBITRATOR OF REASONABLE ATTORNEYS' FEES AND OTHER COSTS REASONABLY INCURRED IN CONNECTION WITH THE ARBITRATION TO THE SAME EXTENT PERMITTED TO BE AWARDED BY A COURT OF LAW.

(h) THE PROVISIONS OF THIS SECTION SHALL SURVIVE THE EXPIRATION OR TERMINATION OF THE AGREEMENT, AND SHALL BE BINDING UPON THE PARTIES.

THE PARTIES HAVE READ SECTION 18 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

\_\_\_\_\_ (EMPLOYEE) \_\_\_\_\_ (COMPANY)

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.

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

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

20. CONDITIONS ON SPECIAL SEVERANCE. Notwithstanding anything else to the contrary, it is expressly understood that any obligation of the Company to pay Special Severance pursuant to this Agreement shall be subject to:

(a) Employee's continued compliance with the terms and conditions of Sections 7(a), 7(b), 7(c), 7(e), 12, 13 and 18;

(b) Employee must not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business which engages directly or indirectly in competition with the businesses of the Company or any of its affiliates, or have any interest, direct or indirect, in any person, firm, corporation, or venture which directly or indirectly competes with the

businesses of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund; and

(c) Employee must not, directly, indirectly, or in any other way, disparage the Company, its officers or employees, vendors, customers, products or activities, or otherwise interfere with the Company's press, public and media relations.

21. SUPERSEDES OLD EXECUTIVE OFFICER EMPLOYMENT AGREEMENT.

Employee and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Executive Officer Employment Agreement effective January 1, 2000 (the "Old Executive 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 Executive Officer Employment Agreement entirely, that the Old Executive 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 Executive Officer Employment Agreement and this Agreement, this Agreement shall control and all 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 Delaware corporation

By:

-----  
Steven C. McCracken

-----  
Ely Callaway, Chairman and CEO

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Employee's Executive Officer Employment Agreement ("Section 6"), the Company agrees to indemnify Employee with respect to certain excise tax obligations as follows:

1. Definitions. For purposes of Section 6 and this Exhibit A, the following terms shall have the meanings specified herein:

(a) "Claim" shall mean any written claim (whether in the form of a tax assessment, proposed tax deficiency or similar written notification) by the Internal Revenue Service or any state or local tax authority that, if successful, would result in any Excise Tax or an Underpayment.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended. All references herein to any section, subsection or other provision of the Code shall be deemed to refer to any successor thereto.

(c) "Excise Tax" shall mean (i) any excise tax imposed by Section 4999 of the Code or any comparable federal, state or local tax, and (ii) any interest and/or penalties incurred with respect to any tax described in 1(c)(i).

(d) Gross-Up Payment shall mean a cash payment as specified in Section 2.

(e) "Overpayment" and "Underpayment" shall have the meanings specified in Section 4.

(f) "Payment" shall mean any payment, benefit or distribution (including, without limitation, cash, the acceleration of the granting, vesting or exercisability of stock options or other incentive awards, or the accrual or continuation of any other payments or benefits) granted or paid to or for the benefit of Employee by the Company or by any person or persons whose actions result in a Taxable Event (as defined in this Section), or by any person affiliated with the Company or such person(s), whether paid or payable pursuant to the terms of this Agreement or otherwise. Notwithstanding the foregoing, a Payment shall not include any Gross-Up Payment required under Section 6 and this Exhibit A.

(g) "Taxable Event" shall mean any change in control or other event which triggers the imposition of any Excise Tax on any Payment.

2. In the event that any Payment is determined to be subject to any Excise Tax, then Employee shall be entitled to receive from the Company a Gross-Up Payment in an amount such that, after the payment of all income taxes, Excise Taxes and any other taxes imposed with respect to the Gross-Up Payment (together with payment of all interest and penalties imposed with respect to any such taxes), Employee shall retain a net amount of the Gross-Up Payment equal to the Excise Tax imposed with respect to the Payments.

3. All determinations required to be made under Section 6 and this Exhibit A, including, without limitation, whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment, and the assumptions to be utilized in arriving at such determinations, shall be made by the accounting firm of Pricewaterhouse Coopers LLP or, if applicable, its successor as the Company's independent auditor (the "Accounting Firm"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Taxable Event to which a possible Gross-Up Payment is related, another nationally recognized accounting firm that is mutually acceptable to the Company and Employee shall be appointed to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). The Accounting Firm shall provide detailed supporting calculations to the Company and to Employee regarding the amount of Excise

Tax (if any) which is payable, and the Gross-Up Payment (if any) required hereunder, with respect to any Payment or Payments, with such calculations to be provided at such time as may be requested by the Company but in no event later than fifteen (15) business days following receipt of a written notice from Employee that there has been a Payment that may be subject to an Excise Tax. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment as determined pursuant to Section 6 and this Exhibit A shall be paid by the Company to Employee within five (5) business days after receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Employee, the Accounting Firm shall furnish Employee with a written opinion that failure to disclose, report or pay the Excise Tax on Employee's federal or other applicable tax returns will not result in the imposition of a negligence penalty, understatement penalty or other similar penalty. All determinations by the Accounting Firm shall be binding upon the Company and Employee in the absence of clear and indisputable mathematical error. Following receipt of a Gross-Up Payment as provided herein, Employee shall be obligated to properly and timely report his Excise Tax liability on the applicable tax returns or reports and to pay the full amount of Excise Tax with funds provided through such Gross-Up Payment. Notwithstanding the foregoing, if the Company reasonably determines that the Employee will be unable or otherwise may fail to make such Excise Tax payment, the Company may elect to pay the Excise Tax to the Internal Revenue Service and/or other applicable tax authority on behalf of the Employee, in which case the Company shall pay the net balance of the Gross-Up Payment (after deduction of such Excess Tax payment) to the Employee.

4. As a result of uncertainty in the application of Section 4999 of the Code, it is possible that a Gross-Up Payment will not have been made by the Company that should have been made (an "Underpayment") or that a Gross-Up Payment is made that should not have been made (an "Overpayment"). In the event that Employee is required to make a payment of any Excise Tax, due to an Underpayment, the Accounting Firm shall determine the amount of Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to Employee in which case Employee shall be obligated to make a timely payment of the full amount of the applicable Excise Tax to the applicable tax authority, provided, however, the Company may elect to pay the Excise Tax to the applicable tax authority on behalf of Employee consistent with the provisions of Section 3, in which case the Company shall pay the net balance of the Underpayment (after deduction of such Excise Tax payment) to Employee. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be repaid by Employee to the Company within ninety (90) days after written demand to Employee by the Company, provided, however, that Employee shall have no obligation to repay any amount of the Overpayment that has been paid to, and not recovered from, a tax authority, provided further, however, in such event the Company may direct Employee to prosecute a claim for a refund of such amount consistent with the principles set forth in Section 5.

5. Employee shall notify the Company in writing of any Claim. Such notice (a) shall be given as soon as practicable, but in no event later than fifteen (15) business days, following Employee's receipt of written notice of the Claim from the applicable tax authority, and (b) shall include a complete and accurate copy of the tax authority's written Claim or otherwise fully inform the Company of the nature of the Claim and the date on which any payment of the Claim must be paid, provided that Employee shall not be required to give notice to the Company of facts of which the Company is already aware, and provided further that failure or delay by Employee to give such notice shall not constitute a breach of Section 6 or this Exhibit A except to the extent that the Company is prejudiced thereby. Employee shall not pay any portion of a Claim prior to the earlier of (a) the expiration of thirty (30) days following the date on which Employee gives the foregoing notice to the Company, (b) the date that any Excise Tax payment under the Claim is due, or (c) the date the Company notifies Employee that it does not intend to contest the Claim. If, prior to expiration of such period, the Company notifies Employee in writing that it desires to contest the Claim, Employee shall:

(a) give the Company any information reasonably requested by the Company relating to the Claim;

(b) take such action in connection with contesting the Claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to the Claim by an attorney selected and compensated by the Company who is reasonably acceptable to Employee;

(c) cooperate with the Company in good faith in order to effectively contest the Claim; and

(d) permit the Company to participate (at its expense) in any and all proceedings and conferences pertaining to the Claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including, without limitation, additional interest and penalties and attorneys' fees) incurred in connection with any such contest, and shall indemnify and hold Employee harmless, on an after-tax basis, for any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and all costs imposed or incurred in connection with such contests. Without limitation upon the foregoing provisions of this Section 5, and except as provided below, the Company shall control all proceedings concerning any such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with tax authorities pertaining to the Claim. At the written request of the Company, and upon payment to Employee of an amount at least equal to the Claim plus any additional amount necessary to obtain the jurisdiction of the appropriate tribunal and/or court, Employee shall pay the same and sue for a refund or otherwise contest the Claim in any permissible manner as directed by the Company. Employee agrees to prosecute any contest of a Claim to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine, provided, however, that if the Company requests Employee to pay the Claim and sue for a refund, the Company shall indemnify and hold Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and costs imposed or incurred in connection with such contest or with respect to any imputed income attributable to any advances or payments by the Company hereunder. Any extension of the statute of limitations relating to assessment of any Excise Tax for the taxable year of Employee which is the subject of a Claim is to be limited solely to the Claim. Furthermore, the Company's control of a contest as provided hereunder shall be limited to issues for which a Gross-Up Payment would be payable hereunder, and Employee shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other tax authority.

6. If Employee receives a refund from a tax authority of all or any portion of an Excise Tax paid by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, Employee shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). Employee shall, if so directed by the Company, file and otherwise prosecute a claim for refund of any Excise Tax payment made by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, with any such refund claim to be effected in accordance with the principles set forth in Section 5. If a determination is made that Employee shall not be entitled to any refund and the Company does not notify Employee in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then Employee shall have no further obligation hereunder to contest such denial or to repay to the Company the amount involved in such unsuccessful refund claim. The amount of any advances which are made by the Company in connection with any such refund claim hereunder, to the extent not refunded by the applicable tax authority to Employee, shall offset, as appropriate consistent with the purposes of Section 6 and this Exhibit A, the amount of any Gross-Up Payment required hereunder to be paid by the Company to Employee.



EXHIBIT B

CHANGE IN CONTROL

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

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

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

3. Consummation by the Company of the sale 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

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

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

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

## EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of September 1, 2000, by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Company"), and RONALD A. DRAPEAU ("Employee").

## 1. TERM.

(a) The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the period commencing September 1, 2000 and terminating December 31, 2003 (the "Initial Term"), unless this Agreement is earlier terminated as hereinafter provided.

(b) On December 31, 2003, and on each December 31 thereafter (the "Extension Dates"), the expiration date of this Agreement shall be automatically extended one (1) year, through December 31 of the following year, so long as (a) this Agreement is otherwise still in full force and effect, (b) Employee is still employed by the Company pursuant to this Agreement, (c) Employee is not otherwise in breach of this Agreement, and (d) neither the Company nor Employee has given notice as provided in Section 1(c) of this Agreement.

(c) At any time prior to an Extension Date, either Employee or the Company may give written notice to the other ("Notice") that the next automatic extension of the expiration date of this Agreement pursuant to Section 1(b) shall be the final such automatic extension of the expiration date of this Agreement. Thus, if either Employee or the Company gives Notice on or before December 31, 2003, and all other conditions for automatic extension of the expiration date of this Agreement pursuant to Section 1(b) exist, then on December 31, 2003, the expiration date of this Agreement shall be extended pursuant to Section 1(b) from December 31, 2003 to December 31, 2004, with this Agreement expiring on that date (if not earlier terminated pursuant to its terms) without any further automatic extensions.

(d) Upon expiration of this Agreement, Employee's status shall be one of at will employment.

## 2. SERVICES.

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

(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.

(c) The Company and Employee agree that the services being provided by Employee for the Company under the terms of this Agreement are unique and intellectual in character and that the Employee and Company are entering into this Agreement so that the Company will have the exclusive benefit of those services during the entire term of the Agreement and any extensions of the Agreement.

3. SERVICES TO BE EXCLUSIVE. During the term hereof, Employee agrees to devote his or her 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 and its Chief Executive Officer. 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 or otherwise receiving

compensation or other consideration from 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 a base salary at the rate of \$500,000.00 per year.

(b) The Company shall provide Employee an opportunity to earn an annual bonus based upon participation in the Company's officer bonus plan as it may or may not exist from time to time. Employee acknowledges that currently all bonuses are discretionary, that the current officer bonus plan does not include any nondiscretionary bonus plan, and that the Company does not currently contemplate establishing any nondiscretionary bonus plan applicable to Employee.

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 and its Chief Executive Officer.

(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 vacation will be carried forward 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, term life insurance coverage on Employee's life, payable to whomever the Employee directs, in the face amount of \$1,000,000.00, provided that Employee's physical condition does not prevent Employee from qualifying for such insurance coverage under reasonable terms and conditions;

(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 senior executive officers. It is understood that benefit plans within the meaning of this subsection do not include compensation or bonus plans.

(d) ESTATE PLANNING AND OTHER PERQUISITES. To the extent the Company provides tax and estate planning and related services, or any other perquisites and personal benefits to other senior executive officers generally from time to time, such services and perquisites shall be made available to Employee on the same terms and conditions.

(e) CLUB MEMBERSHIP. The Company shall pay the reasonable cost of initiation associated with Employee gaining privileges at a mutually agreed upon country club. 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.

6. TAX INDEMNIFICATION. Employee shall be indemnified by the Company for certain excise tax obligations, as more specifically set forth in Exhibit A to this Agreement.

7. NONCOMPETITION.

(a) OTHER BUSINESS. To the fullest extent permitted by law, Employee agrees that, while employed by the Company or otherwise receiving compensation or other consideration from the Company (including any severance pursuant to Section 8 of this Agreement), 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 any of its affiliates, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) OTHER EMPLOYEES. Except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company or any of its affiliates to terminate such employment while employed by the Company and for a period of one (1) year thereafter.

(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 or any of its affiliates 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.

(e) NON-INTERFERENCE. While employed by the Company, and for one (1) year thereafter, Employee shall not in any way undertake to harm, injure or disparage the Company, its officers, directors, employees, agents, affiliates, vendors, products, or customers, or their successors, or in any other way exhibit an attitude of hostility toward them. Employee understands that it is the policy of the Company that only the Chief Executive Officer, the Vice President of Press, Public and Media Relations and their specific designees may speak to the press or media about the Company or its business, and agrees not to interfere with the Company's press and public relations by violating this policy.

8. 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. In the event of a termination by the Company for its convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's then current 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 twenty-four (24) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (iii) no other severance.

(b) 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 failure by Employee to substantially perform his or her duties, breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of illegal drugs during work, and/or felony criminal conduct.

(c) 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; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's then current 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 twenty-four (24) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company.

(d) 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. Permanent disability shall be defined as Employee's failure to perform or being unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of more than six (6) months on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three qualified physicians, one of which has been selected by the Company, one of which has been selected by Employee, and one of which has been selected by the two other physicians jointly. 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) severance payments equal to Employee's then current 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 twenty-four (24) months from the date of termination; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; (iv) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (v) no other severance. The Company shall be entitled to take, as an offset against any amounts due pursuant to subsections (i) and (ii) above, any amounts received by Employee pursuant to disability or other insurance, or similar sources, provided by the Company.

(e) TERMINATION DUE TO DEATH. Employee's employment under this Agreement shall be terminated immediately by the Company in the event of Employee's death. In the event of a termination due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of death; (ii) severance payments equal to Employee's then current base salary at the same rate and on the same schedule as in effect at the time of death for a period of time equal to the greater of the remainder of the term of this Agreement or six (6) months from the date of death; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of the date of death in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's death; and (iv) no other severance.

(f) 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. 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 or her 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 regarding any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(g) 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.

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

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

(a) If a Change in Control (as defined in Exhibit B hereto) occurs before the termination of Employee's employment hereunder, then this Agreement shall be automatically renewed (the "Renewed Employment Agreement") in the same form and substance as in effect immediately prior to the Change in Control, except that the Initial Term, as specified pursuant to Section 1 of this Agreement, shall be three (3) years commencing with the effective date of the Change in Control, and the Extension Dates shall commence with the second anniversary of the effective date of the Change in Control.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one (1) 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 treated as if he or she had been terminated for the convenience of the Company pursuant to Section 8(a), and Employee shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a), as appropriate, of this Agreement. Furthermore, the provisions of Section 8 shall continue to apply during the term of the Renewed 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.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of the Employee's permanent disability (defined in Section 8(d)), Employee's

death, and any of the factors enumerated in Section 8(b) providing for termination by the Company for substantial cause:

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

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

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

(iv) any reduction, limitation or failure to pay or provide any of the compensation, reimbursable expenses, 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 or she had immediately prior to the Change in Control.

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

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. TRADE SECRETS AND CONFIDENTIAL INFORMATION.

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

(b) Notwithstanding the provisions of subsection 12(a), the term "Trade Secrets and Confidential Information" does not include (i) information which, at the time of disclosure or observation, had been previously published or otherwise publicly disclosed; (ii) information which is published (or otherwise publicly disclosed) after disclosure or observation, unless such publication is a breach of this

Agreement or is otherwise a violation of contractual, legal or fiduciary duties owed to the Company, which violation is known to Employee; or (iii) information which, subsequent to disclosure or observation, 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 who is not required to refrain from disclosing such information to others.

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

(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. ASSIGNMENT OF RIGHTS.

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

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

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

(d) Pursuant to California Labor Code Section 2870, the obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation to the extent such obligation would conflict with any state or federal law. The obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation that Employee developed entirely on Employee's own time without using the Company's equipment, supplies, facilities or Trade Secrets and Confidential Information except those Designs, Inventions or Innovations that either:



(i) Relate at the time of conception or reduction to practice to the Company's and/or its affiliates' business, or actual or demonstrably anticipated research of the Company and/or its affiliates; or

(ii) Result from any work performed by Employee for the Company and/or its affiliates.

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

(f) The provisions of this Section 13 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

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. 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 incurred in such action or proceeding.

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. 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: Ronald A. Drapeau  
405 Bridoon Terrace  
Encinitas, California 92024

Company: Callaway Golf Company  
2285 Rutherford Road  
Carlsbad, California 92008-8815  
Attn: Steven C. McCracken  
Executive Vice President, Chief Legal Officer

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

18. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) EMPLOYEE AND THE COMPANY AGREE THAT ANY DISPUTE, CONTROVERSY OR CLAIM ARISING HEREUNDER OR IN ANY WAY RELATED TO THIS AGREEMENT, ITS INTERPRETATION, ENFORCEABILITY, OR APPLICABILITY, OR RELATING TO EMPLOYEE'S EMPLOYMENT, OR THE TERMINATION THEREOF, THAT CANNOT BE RESOLVED BY MUTUAL AGREEMENT OF THE PARTIES SHALL BE SUBMITTED TO BINDING ARBITRATION. THIS INCLUDES, BUT IS NOT LIMITED TO, ALLEGED VIOLATIONS OF FEDERAL, STATE AND/OR LOCAL STATUTES, CLAIMS BASED ON ANY PURPORTED BREACH OF DUTY ARISING IN CONTRACT OR TORT, INCLUDING BREACH OF CONTRACT, BREACH OF THE COVENANT OF GOOD FAITH AND FAIR DEALING, VIOLATION OF PUBLIC POLICY, VIOLATION OF ANY STATUTORY, CONTRACTUAL OR COMMON LAW RIGHTS, BUT EXCLUDING WORKERS' COMPENSATION, UNEMPLOYMENT MATTERS, OR ANY MATTER FALLING WITHIN THE JURISDICTION OF THE STATE LABOR COMMISSIONER. THE PARTIES AGREE THAT ARBITRATION IS THE PARTIES' ONLY RECOURSE FOR SUCH CLAIMS AND HEREBY WAIVE THE RIGHT TO PURSUE SUCH CLAIMS IN ANY OTHER FORUM, UNLESS OTHERWISE PROVIDED BY LAW. ANY COURT ACTION INVOLVING A DISPUTE WHICH IS NOT SUBJECT TO ARBITRATION SHALL BE STAYED PENDING ARBITRATION OF ARBITRABLE DISPUTES.

(b) EMPLOYEE AND THE COMPANY AGREE THAT THE ARBITRATOR SHALL HAVE THE AUTHORITY TO ISSUE PROVISIONAL RELIEF. EMPLOYEE AND THE COMPANY FURTHER AGREE THAT EACH HAS THE RIGHT, PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 1281.8, TO APPLY TO A COURT FOR A PROVISIONAL REMEDY IN CONNECTION WITH AN ARBITRABLE DISPUTE SO AS TO PREVENT THE ARBITRATION FROM BEING RENDERED INEFFECTIVE.

(c) ANY DEMAND FOR ARBITRATION SHALL BE IN WRITING AND MUST BE COMMUNICATED TO THE OTHER PARTY PRIOR TO THE EXPIRATION OF THE APPLICABLE STATUTE OF LIMITATIONS.

(d) THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE PROCEDURAL RULES STATED IN THE NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA"). THE ARBITRATION SHALL BE CONDUCTED IN SAN DIEGO BY A FORMER OR RETIRED JUDGE OR ATTORNEY WITH AT LEAST 10 YEARS EXPERIENCE IN EMPLOYMENT-RELATED DISPUTES, OR A NON-ATTORNEY WITH LIKE EXPERIENCE IN THE AREA OF DISPUTE, WHO SHALL HAVE THE POWER TO HEAR MOTIONS, CONTROL DISCOVERY, CONDUCT HEARINGS AND OTHERWISE DO ALL THAT IS NECESSARY TO RESOLVE THE MATTER. THE PARTIES MUST MUTUALLY AGREE ON THE ARBITRATOR. IF THE PARTIES CANNOT AGREE ON THE ARBITRATOR AFTER THEIR BEST EFFORTS, AN ARBITRATOR FROM THE AMERICAN ARBITRATION ASSOCIATION WILL BE SELECTED PURSUANT TO THE AMERICAN ARBITRATION ASSOCIATION NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES. THE COMPANY SHALL PAY THE COSTS OF THE ARBITRATOR'S FEES.

(e) THE ARBITRATION WILL BE DECIDED UPON A WRITTEN DECISION OF THE ARBITRATOR STATING THE ESSENTIAL FINDINGS AND CONCLUSIONS UPON WHICH THE AWARD IS BASED. THE ARBITRATOR SHALL HAVE THE AUTHORITY TO AWARD DAMAGES, IF ANY, TO THE EXTENT THAT THEY ARE AVAILABLE UNDER APPLICABLE LAW(S). THE ARBITRATION AWARD SHALL BE FINAL AND BINDING, AND MAY BE ENTERED AS A JUDGMENT IN ANY COURT HAVING COMPETENT JURISDICTION. EITHER PARTY MAY SEEK REVIEW PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 1286, ET SEQ.

(f) IT IS EXPRESSLY UNDERSTOOD THAT THE PARTIES HAVE CHOSEN ARBITRATION TO AVOID THE BURDENS, COSTS AND PUBLICITY OF A COURT PROCEEDING, AND THE ARBITRATOR IS EXPECTED TO HANDLE ALL ASPECTS OF THE MATTER, INCLUDING DISCOVERY AND ANY HEARINGS, IN SUCH A WAY AS TO MINIMIZE THE EXPENSE, TIME, BURDEN AND PUBLICITY OF THE PROCESS, WHILE ASSURING A FAIR AND JUST RESULT. IN PARTICULAR, THE PARTIES EXPECT THAT THE ARBITRATOR WILL LIMIT DISCOVERY BY CONTROLLING THE AMOUNT OF DISCOVERY THAT MAY BE TAKEN (E.G., THE NUMBER OF DEPOSITIONS OR INTERROGATORIES) AND BY RESTRICTING THE SCOPE OF DISCOVERY ONLY TO THOSE MATTERS CLEARLY RELEVANT TO THE DISPUTE. HOWEVER, AT A MINIMUM, EACH PARTY WILL BE ENTITLED TO AT LEAST ONE DEPOSITION AND SHALL HAVE ACCESS TO ESSENTIAL DOCUMENTS AND WITNESSES AS DETERMINED BY THE ARBITRATOR.

(g) THE PREVAILING PARTY SHALL BE ENTITLED TO AN AWARD BY THE ARBITRATOR OF REASONABLE ATTORNEYS' FEES AND OTHER COSTS REASONABLY INCURRED IN CONNECTION WITH THE ARBITRATION TO THE SAME EXTENT PERMITTED TO BE AWARDED BY A COURT OF LAW.

(h) THE PROVISIONS OF THIS SECTION SHALL SURVIVE THE EXPIRATION OR TERMINATION OF THE AGREEMENT, AND SHALL BE BINDING UPON THE PARTIES.

THE PARTIES HAVE READ SECTION 18 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

\_\_\_\_\_ (EMPLOYEE) \_\_\_\_\_ (COMPANY)

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.

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

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

20. CONDITIONS ON SPECIAL SEVERANCE. Notwithstanding anything else to the contrary, it is expressly understood that any obligation of the Company to pay Special Severance pursuant to this Agreement shall be subject to:

(a) Employee's continued compliance with the terms and conditions of Sections 7(a), 7(b), 7(c), 7(e), 12, 13 and 18;

(b) Employee must not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business which engages directly or indirectly in competition with the businesses of the Company or any of its affiliates, or have any interest, direct or indirect, in any person, firm, corporation, or venture which directly or indirectly competes with the

businesses of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund; and

(c) Employee must not, directly, indirectly, or in any other way, disparage the Company, its officers or employees, vendors, customers, products or activities, or otherwise interfere with the Company's press, public and media relations.

21. SUPERSEDES OLD EXECUTIVE OFFICER EMPLOYMENT AGREEMENT.

Employee and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Executive Officer Employment Agreement effective January 1, 2000 (the "Old Executive 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 Executive Officer Employment Agreement entirely, that the Old Executive 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 Executive Officer Employment Agreement and this Agreement, this Agreement shall control and all 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 Delaware corporation

By:

-----  
Ronald A. Drapeau

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Ely Callaway, Chairman and CEO

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Employee's Executive Officer Employment Agreement ("Section 6"), the Company agrees to indemnify Employee with respect to certain excise tax obligations as follows:

1. Definitions. For purposes of Section 6 and this Exhibit A, the following terms shall have the meanings specified herein:

(a) "Claim" shall mean any written claim (whether in the form of a tax assessment, proposed tax deficiency or similar written notification) by the Internal Revenue Service or any state or local tax authority that, if successful, would result in any Excise Tax or an Underpayment.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended. All references herein to any section, subsection or other provision of the Code shall be deemed to refer to any successor thereto.

(c) "Excise Tax" shall mean (i) any excise tax imposed by Section 4999 of the Code or any comparable federal, state or local tax, and (ii) any interest and/or penalties incurred with respect to any tax described in 1(c)(i).

(d) Gross-Up Payment shall mean a cash payment as specified in Section 2.

(e) "Overpayment" and "Underpayment" shall have the meanings specified in Section 4.

(f) "Payment" shall mean any payment, benefit or distribution (including, without limitation, cash, the acceleration of the granting, vesting or exercisability of stock options or other incentive awards, or the accrual or continuation of any other payments or benefits) granted or paid to or for the benefit of Employee by the Company or by any person or persons whose actions result in a Taxable Event (as defined in this Section), or by any person affiliated with the Company or such person(s), whether paid or payable pursuant to the terms of this Agreement or otherwise. Notwithstanding the foregoing, a Payment shall not include any Gross-Up Payment required under Section 6 and this Exhibit A.

(g) "Taxable Event" shall mean any change in control or other event which triggers the imposition of any Excise Tax on any Payment.

2. In the event that any Payment is determined to be subject to any Excise Tax, then Employee shall be entitled to receive from the Company a Gross-Up Payment in an amount such that, after the payment of all income taxes, Excise Taxes and any other taxes imposed with respect to the Gross-Up Payment (together with payment of all interest and penalties imposed with respect to any such taxes), Employee shall retain a net amount of the Gross-Up Payment equal to the Excise Tax imposed with respect to the Payments.

3. All determinations required to be made under Section 6 and this Exhibit A, including, without limitation, whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment, and the assumptions to be utilized in arriving at such determinations, shall be made by the accounting firm of Pricewaterhouse Coopers LLP or, if applicable, its successor as the Company's independent auditor (the "Accounting Firm"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Taxable Event to which a possible Gross-Up Payment is related, another nationally recognized accounting firm that is mutually acceptable to the Company and Employee shall be appointed to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). The Accounting Firm shall provide detailed supporting calculations to the Company and to Employee regarding the amount of Excise

Tax (if any) which is payable, and the Gross-Up Payment (if any) required hereunder, with respect to any Payment or Payments, with such calculations to be provided at such time as may be requested by the Company but in no event later than fifteen (15) business days following receipt of a written notice from Employee that there has been a Payment that may be subject to an Excise Tax. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment as determined pursuant to Section 6 and this Exhibit A shall be paid by the Company to Employee within five (5) business days after receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Employee, the Accounting Firm shall furnish Employee with a written opinion that failure to disclose, report or pay the Excise Tax on Employee's federal or other applicable tax returns will not result in the imposition of a negligence penalty, understatement penalty or other similar penalty. All determinations by the Accounting Firm shall be binding upon the Company and Employee in the absence of clear and indisputable mathematical error. Following receipt of a Gross-Up Payment as provided herein, Employee shall be obligated to properly and timely report his Excise Tax liability on the applicable tax returns or reports and to pay the full amount of Excise Tax with funds provided through such Gross-Up Payment. Notwithstanding the foregoing, if the Company reasonably determines that the Employee will be unable or otherwise may fail to make such Excise Tax payment, the Company may elect to pay the Excise Tax to the Internal Revenue Service and/or other applicable tax authority on behalf of the Employee, in which case the Company shall pay the net balance of the Gross-Up Payment (after deduction of such Excess Tax payment) to the Employee.

4. As a result of uncertainty in the application of Section 4999 of the Code, it is possible that a Gross-Up Payment will not have been made by the Company that should have been made (an "Underpayment") or that a Gross-Up Payment is made that should not have been made (an "Overpayment"). In the event that Employee is required to make a payment of any Excise Tax, due to an Underpayment, the Accounting Firm shall determine the amount of Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to Employee in which case Employee shall be obligated to make a timely payment of the full amount of the applicable Excise Tax to the applicable tax authority, provided, however, the Company may elect to pay the Excise Tax to the applicable tax authority on behalf of Employee consistent with the provisions of Section 3, in which case the Company shall pay the net balance of the Underpayment (after deduction of such Excise Tax payment) to Employee. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be repaid by Employee to the Company within ninety (90) days after written demand to Employee by the Company, provided, however, that Employee shall have no obligation to repay any amount of the Overpayment that has been paid to, and not recovered from, a tax authority, provided further, however, in such event the Company may direct Employee to prosecute a claim for a refund of such amount consistent with the principles set forth in Section 5.

5. Employee shall notify the Company in writing of any Claim. Such notice (a) shall be given as soon as practicable, but in no event later than fifteen (15) business days, following Employee's receipt of written notice of the Claim from the applicable tax authority, and (b) shall include a complete and accurate copy of the tax authority's written Claim or otherwise fully inform the Company of the nature of the Claim and the date on which any payment of the Claim must be paid, provided that Employee shall not be required to give notice to the Company of facts of which the Company is already aware, and provided further that failure or delay by Employee to give such notice shall not constitute a breach of Section 6 or this Exhibit A except to the extent that the Company is prejudiced thereby. Employee shall not pay any portion of a Claim prior to the earlier of (a) the expiration of thirty (30) days following the date on which Employee gives the foregoing notice to the Company, (b) the date that any Excise Tax payment under the Claim is due, or (c) the date the Company notifies Employee that it does not intend to contest the Claim. If, prior to expiration of such period, the Company notifies Employee in writing that it desires to contest the Claim, Employee shall:

(a) give the Company any information reasonably requested by the Company relating to the Claim;

(b) take such action in connection with contesting the Claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to the Claim by an attorney selected and compensated by the Company who is reasonably acceptable to Employee;

(c) cooperate with the Company in good faith in order to effectively contest the Claim; and

(d) permit the Company to participate (at its expense) in any and all proceedings and conferences pertaining to the Claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including, without limitation, additional interest and penalties and attorneys' fees) incurred in connection with any such contest, and shall indemnify and hold Employee harmless, on an after-tax basis, for any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and all costs imposed or incurred in connection with such contests. Without limitation upon the foregoing provisions of this Section 5, and except as provided below, the Company shall control all proceedings concerning any such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with tax authorities pertaining to the Claim. At the written request of the Company, and upon payment to Employee of an amount at least equal to the Claim plus any additional amount necessary to obtain the jurisdiction of the appropriate tribunal and/or court, Employee shall pay the same and sue for a refund or otherwise contest the Claim in any permissible manner as directed by the Company. Employee agrees to prosecute any contest of a Claim to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine, provided, however, that if the Company requests Employee to pay the Claim and sue for a refund, the Company shall indemnify and hold Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and costs imposed or incurred in connection with such contest or with respect to any imputed income attributable to any advances or payments by the Company hereunder. Any extension of the statute of limitations relating to assessment of any Excise Tax for the taxable year of Employee which is the subject of a Claim is to be limited solely to the Claim. Furthermore, the Company's control of a contest as provided hereunder shall be limited to issues for which a Gross-Up Payment would be payable hereunder, and Employee shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other tax authority.

6. If Employee receives a refund from a tax authority of all or any portion of an Excise Tax paid by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, Employee shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). Employee shall, if so directed by the Company, file and otherwise prosecute a claim for refund of any Excise Tax payment made by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, with any such refund claim to be effected in accordance with the principles set forth in Section 5. If a determination is made that Employee shall not be entitled to any refund and the Company does not notify Employee in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then Employee shall have no further obligation hereunder to contest such denial or to repay to the Company the amount involved in such unsuccessful refund claim. The amount of any advances which are made by the Company in connection with any such refund claim hereunder, to the extent not refunded by the applicable tax authority to Employee, shall offset, as appropriate consistent with the purposes of Section 6 and this Exhibit A, the amount of any Gross-Up Payment required hereunder to be paid by the Company to Employee.

EXHIBIT B

CHANGE IN CONTROL

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

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

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

3. Consummation by the Company of the sale 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

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

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

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



## EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of July 13, 2000, by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Company"), and BRAD HOLIDAY ("Employee").

1. TERM. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the period commencing August 15, 2000 and terminating December 31, 2002 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 Executive Vice President and Chief Financial Officer of the Company. Employee's duties shall be the usual and customary duties of the offices in which he or she serves. Employee shall report to the Chief Executive Officer or such other person as the Chief Executive Officer shall designate. The Board of Directors and/or the Chief Executive Officer of the Company may change Employee's title, position and/or duties at any time.

(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 or her 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 and its Chief Executive Officer. 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 or otherwise receiving compensation or other consideration from 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 a base salary at the rate of \$400,000.00 per year. Employee's base salary shall be reviewed, and subject to increase but not decrease at the Company's discretion, as of January 1, 2002.

(b) The Company shall provide Employee an opportunity to earn an annual bonus based upon participation in the Company's Executive Bonus Plan as it may or may not exist from time to time. Employee acknowledges that all bonuses are discretionary, that the current Executive Bonus Plan does not include any nondiscretionary bonus plan, and that the Company does not contemplate establishing any nondiscretionary bonus plan applicable to Employee. For purposes of a bonus for the calendar year 2000, Employee shall be treated as if he worked for the Company for the entire 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 and its Chief Executive Officer.

(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 vacation will be carried forward 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, term life insurance coverage on Employee's life, payable to whomever the Employee directs, in the face amount of \$1,000,000.00, provided that Employee's physical condition does not prevent Employee from qualifying for such insurance coverage under reasonable terms and conditions;

(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 senior executive officers. It is understood that benefit plans within the meaning of this subsection do not include compensation or bonus plans.

(d) 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 senior executive officers generally from time to time, such services and perquisites shall be made available to Employee on the same terms and conditions.

(e) CLUB MEMBERSHIP. The Company shall pay the reasonable cost of initiation associated with Employee gaining privileges at a mutually agreed upon country club. 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.

(f) SIGNING BONUS. Company shall pay Employee a one-time signing bonus of \$200,000.00, which is to be paid to Employee on the date Employee actually commences employment pursuant to this Agreement.

(g) STOCK OPTIONS. Pursuant to a separate stock option agreement, and subject to the approval of the Stock Option Committee of the Board of Directors, the Company shall provide to Employee options to purchase up to 200,000 shares of the Common Stock of the Company in accord with the following pricing and vesting schedule ("Start Date" means the date on which Employee actually commences employment with the Company):

SHARES	VESTING DATE	PRICE
100,000	December 31, 2001	Base Price (the closing price on the NYSE on Start Date, as reported in the Wall Street Journal)
100,000	December 31, 2002	Base Price

All shares of stock that are issuable upon the exercise of such options granted to Employee 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.

(h) RELOCATION EXPENSES. The Company will reimburse Employee for actual, normal and reasonable expenses incurred in connection with the relocation of Employee's principal residence to San Diego County, California, including, but not limited to, the actual, normal and reasonable costs of moving household goods (both from his old residence to a temporary residence and from the temporary residence to the new residence); temporary housing costs; commission and closing costs associated with the sale of Employee's old residence; carrying costs associated with the old residence, including all expenses associated with maintaining Employee's old residence until sold; and closing costs and commissions associated with the acquisition of a new primary residence. It is understood that Employee's current employer has advanced to Employee certain amounts to cover all or some of Employee's relocation expenses, including payment to Employee of a \$30,000.00 signing bonus, and to the extent Employee is required to repay all or some of these advances (including the signing bonus), such payments shall be reimbursable pursuant to this section. To the extent any reimbursement of such expenses pursuant to this section is subject to state or federal taxation imposed upon Employee, the Company shall pay to Employee an additional amount (the "Gross-Up Payment") such that after payment of all state and federal taxes on the reimbursement and the Gross-Up Payment, Employee shall retain an amount equal to the reimbursement. Employee shall fully and completely cooperate with the Company with respect to all matters associated with the taxation or potential taxation of reimbursements made pursuant to this section. Notwithstanding anything else to the contrary, total reimbursement and Gross-Up Payments pursuant to this provision shall not exceed \$275,000.00.

6. TAX INDEMNIFICATION. Employee shall be indemnified by the Company for certain excise tax obligations, as more specifically set forth in Exhibit A to this Agreement.

7. NONCOMPETITION.

(a) OTHER BUSINESS. To the fullest extent permitted by law, Employee agrees that, while employed by the Company or otherwise receiving compensation or other consideration from 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 any of its affiliates, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) OTHER EMPLOYEES. Except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company or any of its affiliates to terminate such employment, nor shall Employee directly or indirectly employ any person who is now or hereafter employed by the Company or any of its affiliates 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 or any of its affiliates 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.

(e) NON-INTERFERENCE. While employed by the Company, and for one (1) year thereafter, Employee shall not in any way undertake to harm, injure or disparage the Company, its officers, directors, employees, agents, affiliates, vendors, products, or customers, or their successors, or in any other way exhibit an attitude of hostility toward them. Employee understands that it is the policy of the Company that only the Chief Executive Officer, the Vice President of Press, Public and Media Relations and their specific designees may speak to the press or media about the Company or its business, and agrees not to interfere with the Company's press and public relations by violating this policy.

8. 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. In the event of a termination by the Company for its convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's former 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 greater of the remainder of the term of this Agreement or twelve (12) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to twelve (12) months from the date of termination; and (iii) no other severance.

(b) 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 failure by Employee to substantially perform his or her duties, breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of illegal drugs during work, and/or felony criminal conduct.

(c) 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; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's former 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 greater of the remainder of the term of this Agreement or twelve (12) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to twelve (12) months from the date of termination; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company.

(d) 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. Permanent disability shall be defined as Employee's failure to perform or being unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of more than six (6) months on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three qualified physicians, one of which has been selected by the Company, one of which has been selected by Employee, and one of which has been selected by the two other physicians jointly. 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) severance payments equal to Employee's former 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 greater of the remainder of the term of this Agreement or twelve (12) months from the date of termination; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; (iv) the payment of premiums owed for COBRA insurance benefits for a period of time equal to twelve (12) months from the date of termination; and (v) no other severance. The Company shall be entitled to take, as an offset against any amounts due pursuant to subsections (i) and (ii) above, any amounts received by Employee pursuant to disability or other insurance, or similar sources, provided by the Company.

(e) TERMINATION DUE TO DEATH. Employee's employment under this Agreement shall be terminated immediately by the Company in the event of Employee's death. In the event of a termination due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of death; (ii) severance payments equal to Employee's former base salary at the same rate and on the same schedule as in effect at

the time of death for a period of time equal to the greater of the remainder of the term of this Agreement or

twelve (12) months from the date of death; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of the date of death in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's death; and (iv) no other severance.

(f) 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. 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 or her 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 regarding any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(g) 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.

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

9. RIGHTS UPON A CHANGE IN CONTROL.

(a) If a Change in Control (as defined in Exhibit B 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, as specified pursuant to Section 1 of this Agreement, shall be three (3) years from the effective date of the Change in Control.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one (1) 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 treated as if he or she had been terminated for the convenience of the Company pursuant to Section 8(a), and Employee shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a), as appropriate, of this Agreement. Furthermore, the provisions of 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.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of the Employee's permanent disability (defined in Section 8(d)), Employee's death, and any of the factors enumerated in Section 8(b) providing for termination by the Company for substantial cause:

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

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

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

(iv) any reduction, limitation or failure to pay

or provide any of the compensation,

reimbursable expenses, 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 or she had immediately prior to the Change in Control.

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

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. TRADE SECRETS AND CONFIDENTIAL INFORMATION.

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

(b) Notwithstanding the provisions of subsection 12(a), the term "Trade Secrets and Confidential Information" does not include (i) information which, at the time of disclosure or observation, had been previously published or otherwise publicly disclosed; (ii) information which is published (or otherwise publicly disclosed) after disclosure or observation, unless such publication is a breach of this Agreement or is otherwise a violation of contractual, legal or fiduciary duties owed to the Company, which violation is known to Employee; or (iii) information which, subsequent to disclosure or observation, 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 who is not required to refrain from disclosing such information to others.

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



non-disclosure agreement in a form acceptable to the Company.

(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. ASSIGNMENT OF RIGHTS.

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

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

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

(d) Pursuant to California Labor Code Section 2870, the obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation to the extent such obligation would conflict with any state or federal law. The obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation that Employee developed entirely on Employee's own time without using the Company's equipment, supplies, facilities or Trade Secrets and Confidential Information except those Designs, Inventions or Innovations that either:

(i) Relate at the time of conception or reduction to practice to the Company's and/or its affiliates' business, or actual or demonstrably anticipated research of the Company and/or its affiliates; or

(ii) Result from any work performed by Employee for the Company and/or its affiliates.

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

(f) The provisions of this Section 13 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

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. 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 incurred in such action or proceeding as provided in Section 18(f).

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. 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: Brad Holiday  
14224 Harrow Road  
Poway, California 92064

Company: Callaway Golf Company  
2285 Rutherford Road  
Carlsbad, California 92008-8815  
Attn: Steven C. McCracken  
Executive Vice President, Chief Legal Officer

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

18. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) EMPLOYEE AND THE COMPANY AGREE THAT ANY DISPUTE, CONTROVERSY OR CLAIM ARISING HEREUNDER OR IN ANY WAY RELATED TO THIS AGREEMENT, ITS INTERPRETATION, ENFORCEABILITY, OR APPLICABILITY, OR RELATING TO EMPLOYEE'S EMPLOYMENT, OR THE TERMINATION THEREOF, THAT CANNOT BE RESOLVED BY MUTUAL AGREEMENT OF THE PARTIES SHALL BE SUBMITTED TO BINDING ARBITRATION. THIS INCLUDES, BUT IS NOT LIMITED TO, ALLEGED VIOLATIONS OF FEDERAL, STATE AND/OR LOCAL STATUTES, CLAIMS BASED ON ANY PURPORTED BREACH OF DUTY ARISING IN CONTRACT OR TORT, INCLUDING BREACH OF CONTRACT, BREACH OF THE COVENANT OF GOOD FAITH AND FAIR DEALING, VIOLATION OF PUBLIC POLICY, VIOLATION OF ANY STATUTORY, CONTRACTUAL OR COMMON LAW RIGHTS, BUT EXCLUDING WORKERS' COMPENSATION, UNEMPLOYMENT MATTERS, OR ANY MATTER FALLING WITHIN THE JURISDICTION OF THE STATE LABOR COMMISSIONER. THE PARTIES AGREE THAT ARBITRATION IS THE PARTIES' ONLY RECOURSE FOR SUCH CLAIMS AND HEREBY WAIVE THE RIGHT TO PURSUE SUCH CLAIMS IN ANY OTHER FORUM, UNLESS OTHERWISE PROVIDED BY LAW. ANY COURT ACTION INVOLVING A DISPUTE WHICH IS NOT SUBJECT TO ARBITRATION SHALL BE STAYED PENDING ARBITRATION OF ARBITRABLE DISPUTES; PROVIDED, HOWEVER, THAT THE PARTIES SHALL HAVE THE RIGHT TO SEEK PROVISIONAL RELIEF IN AN ANCILLARY COURT ACTION IN CONNECTION WITH AN ARBITRABLE DISPUTE.

(b) ANY DEMAND FOR ARBITRATION SHALL BE IN WRITING AND MUST BE COMMUNICATED TO THE OTHER PARTY WITHIN ONE (1) YEAR AFTER THE DISCOVERY OF THE ALLEGED CLAIM OR CAUSE OF ACTION BY THE AGGRIEVED PARTY, OR, IF LATER, WITHIN THE TIME PERIOD STATED IN THE APPLICABLE STATUTE OF LIMITATIONS.

(c) THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE PROCEDURAL RULES STATED IN THE NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA"). THE ARBITRATION SHALL BE CONDUCTED IN SAN DIEGO BY A FORMER OR RETIRED JUDGE OR ATTORNEY WITH AT LEAST 10 YEARS EXPERIENCE IN EMPLOYMENT-RELATED DISPUTES, OR A NON-ATTORNEY WITH LIKE EXPERIENCE IN THE AREA OF DISPUTE, WHO SHALL HAVE THE POWER TO HEAR MOTIONS, CONTROL DISCOVERY, CONDUCT HEARINGS AND OTHERWISE DO ALL THAT IS NECESSARY TO RESOLVE THE MATTER. THE PARTIES MUST MUTUALLY AGREE ON THE ARBITRATOR. IF THE PARTIES CANNOT AGREE ON THE ARBITRATOR AFTER THEIR BEST EFFORTS, AN ARBITRATOR FROM THE AMERICAN ARBITRATION ASSOCIATION WILL BE SELECTED PURSUANT TO THE AMERICAN ARBITRATION ASSOCIATION NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES.

(d) THE ARBITRATION AWARD SHALL BE FINAL AND BINDING, AND MAY BE ENTERED AS A JUDGMENT IN ANY COURT HAVING COMPETENT JURISDICTION. IT IS EXPRESSLY UNDERSTOOD THAT THE PARTIES HAVE CHOSEN ARBITRATION TO AVOID THE BURDENS, COSTS AND PUBLICITY OF A COURT PROCEEDING, AND THE ARBITRATOR IS EXPECTED TO HANDLE ALL ASPECTS OF THE MATTER, INCLUDING DISCOVERY AND ANY HEARINGS, IN SUCH A WAY AS TO MINIMIZE THE EXPENSE, TIME, BURDEN AND PUBLICITY OF THE PROCESS, WHILE ASSURING A FAIR AND JUST RESULT. IN PARTICULAR, THE PARTIES EXPECT THAT THE ARBITRATOR WILL LIMIT DISCOVERY BY CONTROLLING THE AMOUNT OF DISCOVERY THAT MAY BE TAKEN (E.G., THE NUMBER OF DEPOSITIONS OR INTERROGATORIES) AND BY RESTRICTING THE SCOPE OF DISCOVERY TO ONLY THOSE MATTERS CLEARLY RELEVANT TO THE DISPUTE. HOWEVER, AT A MINIMUM, EACH PARTY WILL BE ENTITLED TO ONE DEPOSITION.

(e) THE PARTIES UNDERSTAND AND AGREE THAT THE ARBITRATOR HAS NO AUTHORITY TO AWARD PUNITIVE DAMAGES.

(f) THE PREVAILING PARTY SHALL BE ENTITLED TO AN AWARD BY THE ARBITRATOR OF REASONABLE ATTORNEYS' FEES AND OTHER COSTS REASONABLY INCURRED IN CONNECTION WITH THE ARBITRATION, INCLUDING WITNESS FEES AND EXPERT WITNESS FEES, UNLESS THE ARBITRATOR FOR GOOD CAUSE DETERMINES OTHERWISE.

(g) THE PROVISIONS OF THIS SECTION SHALL SURVIVE THE EXPIRATION OR TERMINATION OF THE AGREEMENT, AND SHALL BE BINDING UPON THE PARTIES.

THE PARTIES HAVE READ PARAGRAPH 18 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

\_\_\_\_\_ (EMPLOYEE) \_\_\_\_\_ (COMPANY)

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.

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

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

20. CONDITIONS ON SPECIAL SEVERANCE. Notwithstanding anything else to the contrary, it is

expressly understood that any obligation of the Company to pay Special Severance pursuant to this Agreement shall be subject to:

(a) Employee's continued compliance with the terms and conditions of Sections 7(a), 7(b), 7(c), 7(e), 12, 13 and 18;

(b) Employee must not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business which engages directly or indirectly in competition with the businesses of the Company or any of its affiliates, or have any interest, direct or indirect, in any person, firm, corporation, or venture which directly or indirectly competes with the businesses of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund; and

(c) Employee must not, directly, indirectly, or in any other way, disparage the Company, its officers or employees, vendors, customers, products or activities, or otherwise interfere with the Company's press, public and media relations.

21. TRADE SECRETS OF OTHERS. It is the understanding of both the Company and Employee that Employee shall not divulge to the Company any confidential information or trade secrets belonging to others, including Employee's former employers, nor shall the Company seek to elicit from Employee any such information. Consistent with the foregoing, Employee shall not provide to the Company, and the Company shall not request, any documents or copies of documents containing such information.

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

EMPLOYEE

COMPANY

Callaway Golf Company,  
a Delaware corporation

By:

-----  
Brad Holiday

-----  
Chuck Yash, President

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Employee's Employment Agreement ("Section 6"), the Company agrees to indemnify Employee with respect to certain excise tax obligations as follows:

1. Definitions. For purposes of Section 6 and this Exhibit A, the following terms shall have the meanings specified herein:

(a) "Claim" shall mean any written claim (whether in the form of a tax assessment, proposed tax deficiency or similar written notification) by the Internal Revenue Service or any state or local tax authority that, if successful, would result in any Excise Tax or an Underpayment.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended. All references herein to any section, subsection or other provision of the Code shall be deemed to refer to any successor thereto.

(c) "Excise Tax" shall mean (i) any excise tax imposed by Section 4999 of the Code or any comparable federal, state or local tax, and (ii) any interest and/or penalties incurred with respect to any tax described in 1(c)(i).

(d) Gross-Up Payment shall mean a cash payment as specified in Section 2.

(e) "Overpayment" and "Underpayment" shall have the meanings specified in Section 4.

(f) "Payment" shall mean any payment, benefit or distribution (including, without limitation, cash, the acceleration of the granting, vesting or exercisability of stock options or other incentive awards, or the accrual or continuation of any other payments or benefits) granted or paid to or for the benefit of Employee by the Company or by any person or persons whose actions result in a Taxable Event (as defined in this Section), or by any person affiliated with the Company or such person(s), whether paid or payable pursuant to the terms of this Agreement or otherwise. Notwithstanding the foregoing, a Payment shall not include any Gross-Up Payment required under Section 6 and this Exhibit A.

(g) "Taxable Event" shall mean any change in control or other event which triggers the imposition of any Excise Tax on any Payment.

2. In the event that any Payment is determined to be subject to any Excise Tax, then Employee shall be entitled to receive from the Company a Gross-Up Payment in an amount such that, after the payment of all income taxes, Excise Taxes and any other taxes imposed with respect to the Gross-Up Payment (together with payment of all interest and penalties imposed with respect to any such taxes), Employee shall retain a net amount of the Gross-Up Payment equal to the Excise Tax imposed with respect to the Payments.

3. All determinations required to be made under Section 6 and this Exhibit A, including, without limitation, whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment, and the assumptions to be utilized in arriving at such determinations, shall be made by the accounting firm of Pricewaterhouse Coopers LLP or, if applicable, its successor as the Company's independent auditor (the "Accounting Firm"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Taxable Event to which a possible Gross-Up Payment is related, another nationally recognized accounting firm that is mutually acceptable to the Company and Employee shall be appointed to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). The Accounting Firm shall provide detailed supporting calculations to the Company and to Employee regarding the amount of Excise

Tax (if any) which is payable, and the Gross-Up Payment (if any) required hereunder, with respect to any Payment or Payments, with such calculations to be provided at such time as may be requested by the Company but in no event later than fifteen (15) business days following receipt of a written notice from Employee that there has been a Payment that may be subject to an Excise Tax. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment as determined pursuant to Section 6 and this Exhibit A shall be paid by the Company to Employee within five (5) business days after receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Employee, the Accounting Firm shall furnish Employee with a written opinion that failure to disclose, report or pay the Excise Tax on Employee's federal or other applicable tax returns will not result in the imposition of a negligence penalty, understatement penalty or other similar penalty. All determinations by the Accounting Firm shall be binding upon the Company and Employee in the absence of clear and indisputable mathematical error. Following receipt of a Gross-Up Payment as provided herein, Employee shall be obligated to properly and timely report his Excise Tax liability on the applicable tax returns or reports and to pay the full amount of Excise Tax with funds provided through such Gross-Up Payment. Notwithstanding the foregoing, if the Company reasonably determines that the Employee will be unable or otherwise may fail to make such Excise Tax payment, the Company may elect to pay the Excise Tax to the Internal Revenue Service and/or other applicable tax authority on behalf of the Employee, in which case the Company shall pay the net balance of the Gross-Up Payment (after deduction of such Excess Tax payment) to the Employee.

4. As a result of uncertainty in the application of Section 4999 of the Code, it is possible that a Gross-Up Payment will not have been made by the Company that should have been made (an "Underpayment") or that a Gross-Up Payment is made that should not have been made (an "Overpayment"). In the event that Employee is required to make a payment of any Excise Tax, due to an Underpayment, the Accounting Firm shall determine the amount of Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to Employee in which case Employee shall be obligated to make a timely payment of the full amount of the applicable Excise Tax to the applicable tax authority, provided, however, the Company may elect to pay the Excise Tax to the applicable tax authority on behalf of Employee consistent with the provisions of Section 3, in which case the Company shall pay the net balance of the Underpayment (after deduction of such Excise Tax payment) to Employee. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be repaid by Employee to the Company within ninety (90) days after written demand to Employee by the Company, provided, however, that Employee shall have no obligation to repay any amount of the Overpayment that has been paid to, and not recovered from, a tax authority, provided further, however, in such event the Company may direct Employee to prosecute a claim for a refund of such amount consistent with the principles set forth in Section 5.

5. Employee shall notify the Company in writing of any Claim. Such notice (a) shall be given as soon as practicable, but in no event later than fifteen (15) business days, following Employee's receipt of written notice of the Claim from the applicable tax authority, and (b) shall include a complete and accurate copy of the tax authority's written Claim or otherwise fully inform the Company of the nature of the Claim and the date on which any payment of the Claim must be paid, provided that Employee shall not be required to give notice to the Company of facts of which the Company is already aware, and provided further that failure or delay by Employee to give such notice shall not constitute a breach of Section 6 or this Exhibit A except to the extent that the Company is prejudiced thereby. Employee shall not pay any portion of a Claim prior to the earlier of (a) the expiration of thirty (30) days following the date on which Employee gives the foregoing notice to the Company, (b) the date that any Excise Tax payment under the Claim is due, or (c) the date the Company notifies Employee that it does not intend to contest the Claim. If, prior to expiration of such period, the Company notifies Employee in writing that it desires to contest the Claim, Employee shall:

(a) give the Company any information reasonably requested by the Company relating to the Claim;

(b) take such action in connection with contesting the Claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to the Claim by an attorney selected and compensated by the Company who is reasonably acceptable to Employee;

(c) cooperate with the Company in good faith in order to

effectively contest the Claim; and

(d) permit the Company to participate (at its expense) in any and all proceedings and conferences pertaining to the Claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including, without limitation, additional interest and penalties and attorneys' fees) incurred in connection with any such contest, and shall indemnify and hold Employee harmless, on an after-tax basis, for any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and all costs imposed or incurred in connection with such contests. Without limitation upon the foregoing provisions of this Section 5, and except as provided below, the Company shall control all proceedings concerning any such contest and, at its sole option, may pursue or forego any and all administrative appeals,



proceedings, hearings and conferences with tax authorities pertaining to the Claim. At the written request of the Company, and upon payment to Employee of an amount at least equal to the Claim plus any additional amount necessary to obtain the jurisdiction of the appropriate tribunal and/or court, Employee shall pay the same and sue for a refund or otherwise contest the Claim in any permissible manner as directed by the Company. Employee agrees to prosecute any contest of a Claim to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine, provided, however, that if the Company requests Employee to pay the Claim and sue for a refund, the Company shall indemnify and hold Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and costs imposed or incurred in connection with such contest or with respect to any imputed income attributable to any advances or payments by the Company hereunder. Any extension of the statute of limitations relating to assessment of any Excise Tax for the taxable year of Employee which is the subject of a Claim is to be limited solely to the Claim. Furthermore, the Company's control of a contest as provided hereunder shall be limited to issues for which a Gross-Up Payment would be payable hereunder, and Employee shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other tax authority.

6. If Employee receives a refund from a tax authority of all or any portion of an Excise Tax paid by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, Employee shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). Employee shall, if so directed by the Company, file and otherwise prosecute a claim for refund of any Excise Tax payment made by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, with any such refund claim to be effected in accordance with the principles set forth in Section 5. If a determination is made that Employee shall not be entitled to any refund and the Company does not notify Employee in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then Employee shall have no further obligation hereunder to contest such denial or to repay to the Company the amount involved in such unsuccessful refund claim. The amount of any advances which are made by the Company in connection with any such refund claim hereunder, to the extent not refunded by the applicable tax authority to Employee, shall offset, as appropriate consistent with the purposes of Section 6 and this Exhibit A, the amount of any Gross-Up Payment required hereunder to be paid by the Company to Employee.

EXHIBIT B

CHANGE IN CONTROL

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

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

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

3. Consummation by the Company of the sale 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

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

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

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

CONTRACT SUMMARY

(REFER TO CONTRACT FOR ACTUAL TERMS AND PROVISIONS)

Term: Through 12/31/02  
Title: Executive Vice President and Chief Financial Officer  
Compensation: \$400,000/year  
Bonus: Discretionary (not pro-rated in 2000)

Benefits:

Vacation: Four (4) weeks paid vacation for each twelve (12) month period of employment.  
Insurance: Participate in the Company's health insurance and disability insurance plans as the same may be modified from time to time; \$1 million in term life insurance coverage.  
Retirement: Participate in the Company's 401(k) pension plan; participate in the Company's Executive Deferred Compensation Plan.  
Other: Participate in any other benefit plans the Company provides from time to time to senior executive officers.  
Estate Planning: Limited reimbursement of estate planning and related services (currently \$5,000 per year).  
Club Membership: The Company shall pay the reasonable cost of initiation associated with Employee gaining privileges at a mutually agreed upon country club. 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.

Signing Bonus: \$200,000.00.

Stock Options: 200,000 shares, vesting 100,000 shares on 12/31/01, and 100,000 on 12/31/02. Priced at closing price on date work is commenced.

Relocation: Reimbursement for actual and reasonable expenses incurred, including Gateway signing bonus of \$30,000, with tax "gross up" payment up to a maximum reimbursement, including "gross up", of \$275,000.00.

Severance:

Termination at the Company's Convenience:

Basic Severance: (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination.

Special Severance: Subject to the provisions of Section 20 (non-compete), (i) base salary for the greater of the remainder of the term of this Agreement or twelve (12) months; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to twelve (12) months from the date of termination; and (iii) no other severance.

Termination by the Company for Substantial Cause:

Basic Severance: (i) any compensation accrued and unpaid as of the date of termination.

Special Severance: None.

Termination By Employee for Substantial Cause:

Basic Severance: (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all

unvested stock options held by Employee as of the date of such termination.

Special Severance:

Subject to the provisions of Section 20 (non-compete), (i) base salary for the greater of the remainder of the term of this Agreement or twelve (12) months; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to twelve (12) months from the date of termination; and (iii) no other severance.

Termination Due to Permanent Disability:

Basic Severance:

(i) any compensation accrued and unpaid as of the date of termination; (ii) base salary for the greater of the remainder of the term of this Agreement or twelve (12) months; (iii) the prorated vesting of unvested stock options held by Employee as of the date of such termination; (iv)

the payment of premiums owed for COBRA insurance benefits for a period of time equal to twelve (12) months from the date of termination; and (v) no other severance.

Special Severance:  
Termination Due to Death:  
Basic Severance:

None.

(i) any compensation accrued and unpaid as of the date of termination; (ii) base salary for the greater of the remainder of the term of this Agreement or twelve (12) months; (iii) the prorated vesting of unvested stock options held by Employee as of the date of such termination; and (iv) no other severance.

Special Severance: None.

Change In Control Rights, Including "Parachute Tax" Indemnification  
Confidentiality/Trade Secrets Protection  
Arbitration of Disputes

SEE CONTRACT FOR DETAILS, TERMS AND CONDITIONS.

## EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of September 1, 2000, by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Company"), and MICHAEL MCCORMICK ("Employee").

## 1. TERM.

(a) The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the period commencing September 1, 2000 and terminating December 31, 2003 (the "Initial Term"), unless this Agreement is earlier terminated as hereinafter provided.

(b) On December 31, 2003, and on each December 31 thereafter (the "Extension Dates"), the expiration date of this Agreement shall be automatically extended one (1) year, through December 31 of the following year, so long as (a) this Agreement is otherwise still in full force and effect, (b) Employee is still employed by the Company pursuant to this Agreement, (c) Employee is not otherwise in breach of this Agreement, and (d) neither the Company nor Employee has given notice as provided in Section 1(c) of this Agreement.

(c) At any time prior to an Extension Date, either Employee or the Company may give written notice to the other ("Notice") that the next automatic extension of the expiration date of this Agreement pursuant to Section 1(b) shall be the final such automatic extension of the expiration date of this Agreement. Thus, if either Employee or the Company gives Notice on or before December 31, 2003, and all other conditions for automatic extension of the expiration date of this Agreement pursuant to Section 1(b) exist, then on December 31, 2003, the expiration date of this Agreement shall be extended pursuant to Section 1(b) from December 31, 2003 to December 31, 2004, with this Agreement expiring on that date (if not earlier terminated pursuant to its terms) without any further automatic extensions.

(d) Upon expiration of this Agreement, Employee's status shall be one of at will employment.

## 2. SERVICES.

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

(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.

(c) The Company and Employee agree that the services being provided by Employee for the Company under the terms of this Agreement are unique and intellectual in character and that the Employee and Company are entering into this Agreement so that the Company will have the exclusive benefit of those services during the entire term of the Agreement and any extensions of the Agreement.

3. SERVICES TO BE EXCLUSIVE. During the term hereof, Employee agrees to devote his or her 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 and its Chief Executive Officer. 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 or otherwise receiving

compensation or other consideration from 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 a base salary at the rate of \$450,000.00 per year.

(b) Effective January 1, 2001, the Company agrees to pay Employee a base salary at the rate of \$500,000.00 per year.

(c) The Company shall provide Employee an opportunity to earn an annual bonus based upon participation in the Company's officer bonus plan as it may or may not exist from time to time. Employee acknowledges that currently all bonuses are discretionary, that the current officer bonus plan does not include any nondiscretionary bonus plan, and that the Company does not currently contemplate establishing any nondiscretionary bonus plan applicable to Employee.

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 and its Chief Executive Officer.

(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 vacation will be carried forward 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, term life insurance coverage on Employee's life, payable to whomever the Employee directs, in the face amount of \$1,000,000.00, provided that Employee's physical condition does not prevent Employee from qualifying for such insurance coverage under reasonable terms and conditions;

(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 senior executive officers. It is understood that benefit plans within the meaning of this subsection do not include compensation or bonus plans.

(d) ESTATE PLANNING AND OTHER PERQUISITES. To the extent the Company provides tax and estate planning and related services, or any other perquisites and personal benefits to other senior executive officers generally from time to time, such services and perquisites shall be made available to Employee on the same terms and conditions.

(e) CLUB MEMBERSHIP. The Company shall pay the reasonable cost of initiation associated with Employee gaining privileges at a mutually agreed upon country club. 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.

6. TAX INDEMNIFICATION. Employee shall be indemnified by the Company for certain excise tax obligations, as more specifically set forth in Exhibit A to this Agreement.

7. NONCOMPETITION.

(a) OTHER BUSINESS. To the fullest extent permitted by law, Employee agrees that, while employed by the Company or otherwise receiving compensation or other consideration from the Company (including any severance pursuant to Section 8 of this Agreement), 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 any of its affiliates, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) OTHER EMPLOYEES. Except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company or any of its affiliates to terminate such employment while employed by the Company and for a period of one (1) year thereafter.

(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 or any of its affiliates 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.

(e) NON-INTERFERENCE. While employed by the Company, and for one (1) year thereafter, Employee shall not in any way undertake to harm, injure or disparage the Company, its officers, directors, employees, agents, affiliates, vendors, products, or customers, or their successors, or in any other way exhibit an attitude of hostility toward them. Employee understands that it is the policy of the Company that only the Chief Executive Officer, the Vice President of Press, Public and Media Relations and their specific designees may speak to the press or media about the Company or its business, and agrees not to interfere with the Company's press and public relations by violating this policy.



8. 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. In the event of a termination by the Company for its convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's then current 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 greater of the remainder of the term of this Agreement or twelve (12) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to twelve (12) months from the date of termination; and (iii) no other severance.

(b) 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 failure by Employee to substantially perform his or her duties, breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of illegal drugs during work, and/or felony criminal conduct.

(c) 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; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's then current 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 greater of the remainder of the term of this Agreement or twelve (12) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to twelve (12) months from the date of termination; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company.

(d) 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. Permanent disability shall be defined as Employee's failure to perform or being unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of more than six (6) months on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three qualified physicians, one of which has been selected by the Company, one of which has been selected by Employee, and one of which has been selected by the two other physicians jointly. 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) severance payments equal to Employee's then current 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 greater of the remainder of the term of this Agreement or twelve (12) months from the date of termination; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; (iv) the payment of premiums owed for COBRA insurance benefits for a period of time equal to twelve (12) months from the date of termination; and (v) no other severance. The Company shall be entitled to take, as an offset against any amounts due pursuant to subsections (i) and (ii) above, any amounts received by Employee pursuant to disability or other insurance, or similar sources, provided by the Company.

(e) TERMINATION DUE TO DEATH. Employee's employment under this Agreement shall be terminated immediately by the Company in the event of Employee's death. In the event of a termination due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of death; (ii) severance payments equal to Employee's then current base salary at the same rate and on the same schedule as in effect at the time of death for a period of time equal to the greater of the remainder of the term of this Agreement or six (6) months from the date of death; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of the date of death in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's death; and (iv) no other severance.

(f) 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. 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 or her 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 regarding any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(g) 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.

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

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

(a) If a Change in Control (as defined in Exhibit B hereto) occurs before the termination of Employee's employment hereunder, then this Agreement shall be automatically renewed (the "Renewed Employment Agreement") in the same form and substance as in effect immediately prior to the Change in Control, except that the Initial Term, as specified pursuant to Section 1 of this Agreement, shall be three (3) years commencing with the effective date of the Change in Control, and the Extension Dates shall commence with the second anniversary of the effective date of the Change in Control.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one (1) 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 treated as if he or she had been terminated for the convenience of the Company pursuant to Section 8(a), and Employee shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a), as appropriate, of this Agreement. Furthermore, the provisions of Section 8 shall continue to apply during the term of the Renewed 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.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of the Employee's permanent disability (defined in Section 8(d)), Employee's

death, and any of the factors enumerated in Section 8(b) providing for termination by the Company for substantial cause:

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

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

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

(iv) any reduction, limitation or failure to pay or provide any of the compensation, reimbursable expenses, 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;

(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 or she had immediately prior to the Change in Control.

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

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. TRADE SECRETS AND CONFIDENTIAL INFORMATION.

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

(b) Notwithstanding the provisions of subsection 12(a), the term "Trade Secrets and Confidential Information" does not include (i) information which, at the time of disclosure or observation, had been previously published or otherwise publicly disclosed; (ii) information which is published (or otherwise publicly disclosed) after disclosure or observation, unless such publication is a breach of this

Agreement or is otherwise a violation of contractual, legal or fiduciary duties owed to the Company, which violation is known to Employee; or (iii) information which, subsequent to disclosure or observation, 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 who is not required to refrain from disclosing such information to others.

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

(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. ASSIGNMENT OF RIGHTS.

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

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

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

(d) Pursuant to California Labor Code Section 2870, the obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation to the extent such obligation would conflict with any state or federal law. The obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation that Employee developed entirely on Employee's own time without using the Company's equipment, supplies, facilities or Trade Secrets and Confidential Information except those Designs, Inventions or Innovations that either:

(i) Relate at the time of conception or reduction to practice to the Company's and/or its affiliates' business, or actual or demonstrably anticipated research of the Company and/or its affiliates; or

(ii) Result from any work performed by Employee for the Company and/or its affiliates.

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

(f) The provisions of this Section 13 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

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. 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 incurred in such action or proceeding.

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. 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: Michael McCormick  
1745 Dylan Way  
Encinitas, California 92024

Company: Callaway Golf Company  
2285 Rutherford Road  
Carlsbad, California 92008-8815  
Attn: Steven C. McCracken  
Executive Vice President, Chief Legal Officer

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

18. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) EMPLOYEE AND THE COMPANY AGREE THAT ANY DISPUTE, CONTROVERSY OR CLAIM ARISING HEREUNDER OR IN ANY WAY RELATED TO THIS AGREEMENT, ITS INTERPRETATION, ENFORCEABILITY, OR APPLICABILITY, OR RELATING TO EMPLOYEE'S EMPLOYMENT, OR THE TERMINATION THEREOF, THAT CANNOT BE RESOLVED BY MUTUAL AGREEMENT OF THE PARTIES SHALL BE SUBMITTED TO BINDING ARBITRATION. THIS INCLUDES, BUT IS NOT LIMITED TO, ALLEGED VIOLATIONS OF FEDERAL, STATE AND/OR LOCAL STATUTES, CLAIMS BASED ON ANY PURPORTED BREACH OF DUTY ARISING IN CONTRACT OR TORT, INCLUDING BREACH OF CONTRACT, BREACH OF THE COVENANT OF GOOD FAITH AND FAIR DEALING, VIOLATION OF PUBLIC POLICY, VIOLATION OF ANY STATUTORY, CONTRACTUAL OR COMMON LAW RIGHTS, BUT EXCLUDING WORKERS' COMPENSATION, UNEMPLOYMENT MATTERS, OR ANY MATTER FALLING WITHIN THE JURISDICTION OF THE STATE LABOR COMMISSIONER. THE PARTIES AGREE THAT ARBITRATION IS THE PARTIES' ONLY RECOURSE FOR SUCH CLAIMS AND HEREBY WAIVE THE RIGHT TO PURSUE SUCH CLAIMS IN ANY OTHER FORUM, UNLESS OTHERWISE PROVIDED BY LAW. ANY COURT ACTION INVOLVING A DISPUTE WHICH IS NOT SUBJECT TO ARBITRATION SHALL BE STAYED PENDING ARBITRATION OF ARBITRABLE DISPUTES.

(b) EMPLOYEE AND THE COMPANY AGREE THAT THE ARBITRATOR SHALL HAVE THE AUTHORITY TO ISSUE PROVISIONAL RELIEF. EMPLOYEE AND THE COMPANY FURTHER AGREE THAT EACH HAS THE RIGHT, PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 1281.8, TO APPLY TO A COURT FOR A PROVISIONAL REMEDY IN CONNECTION WITH AN ARBITRABLE DISPUTE SO AS TO PREVENT THE ARBITRATION FROM BEING RENDERED INEFFECTIVE.

(c) ANY DEMAND FOR ARBITRATION SHALL BE IN WRITING AND MUST BE COMMUNICATED TO THE OTHER PARTY PRIOR TO THE EXPIRATION OF THE APPLICABLE STATUTE OF LIMITATIONS.

(d) THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE PROCEDURAL RULES STATED IN THE NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA"). THE ARBITRATION SHALL BE CONDUCTED IN SAN DIEGO BY A FORMER OR RETIRED JUDGE OR ATTORNEY WITH AT LEAST 10 YEARS EXPERIENCE IN EMPLOYMENT-RELATED DISPUTES, OR A NON-ATTORNEY WITH LIKE EXPERIENCE IN THE AREA OF DISPUTE, WHO SHALL HAVE THE POWER TO HEAR MOTIONS, CONTROL DISCOVERY, CONDUCT HEARINGS AND OTHERWISE DO ALL THAT IS NECESSARY TO RESOLVE THE MATTER. THE PARTIES MUST MUTUALLY AGREE ON THE ARBITRATOR. IF THE PARTIES CANNOT AGREE ON THE ARBITRATOR AFTER THEIR BEST EFFORTS, AN ARBITRATOR FROM THE AMERICAN ARBITRATION ASSOCIATION WILL BE SELECTED PURSUANT TO THE AMERICAN ARBITRATION ASSOCIATION NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES. THE COMPANY SHALL PAY THE COSTS OF THE ARBITRATOR'S FEES.

(e) THE ARBITRATION WILL BE DECIDED UPON A WRITTEN DECISION OF THE ARBITRATOR STATING THE ESSENTIAL FINDINGS AND CONCLUSIONS UPON WHICH THE AWARD IS BASED. THE ARBITRATOR SHALL HAVE THE AUTHORITY TO AWARD DAMAGES, IF ANY, TO THE EXTENT THAT THEY ARE AVAILABLE UNDER APPLICABLE LAW(S). THE ARBITRATION AWARD SHALL BE FINAL AND BINDING, AND MAY BE ENTERED AS A JUDGMENT IN ANY COURT HAVING COMPETENT JURISDICTION. EITHER PARTY MAY SEEK REVIEW PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 1286, ET SEQ.

(f) IT IS EXPRESSLY UNDERSTOOD THAT THE PARTIES HAVE CHOSEN ARBITRATION TO AVOID THE BURDENS, COSTS AND PUBLICITY OF A COURT PROCEEDING, AND THE ARBITRATOR IS EXPECTED TO HANDLE ALL ASPECTS OF THE MATTER, INCLUDING DISCOVERY AND ANY HEARINGS, IN SUCH A WAY AS TO MINIMIZE THE EXPENSE, TIME, BURDEN AND PUBLICITY OF THE PROCESS, WHILE ASSURING A FAIR AND JUST RESULT. IN PARTICULAR, THE PARTIES EXPECT THAT THE ARBITRATOR WILL LIMIT DISCOVERY BY CONTROLLING THE AMOUNT OF DISCOVERY THAT MAY BE TAKEN (E.G., THE NUMBER OF DEPOSITIONS OR INTERROGATORIES) AND BY RESTRICTING THE SCOPE OF DISCOVERY ONLY TO THOSE MATTERS CLEARLY RELEVANT TO THE DISPUTE. HOWEVER, AT A MINIMUM, EACH PARTY WILL BE ENTITLED TO AT LEAST ONE DEPOSITION AND SHALL HAVE ACCESS TO ESSENTIAL DOCUMENTS AND WITNESSES AS DETERMINED BY THE ARBITRATOR.

(g) THE PREVAILING PARTY SHALL BE ENTITLED TO AN AWARD BY THE ARBITRATOR OF REASONABLE ATTORNEYS' FEES AND OTHER COSTS REASONABLY INCURRED IN CONNECTION WITH THE ARBITRATION TO THE SAME EXTENT PERMITTED TO BE AWARDED BY A COURT OF LAW.

(h) THE PROVISIONS OF THIS SECTION SHALL SURVIVE THE EXPIRATION OR TERMINATION OF THE AGREEMENT, AND SHALL BE BINDING UPON THE PARTIES.

THE PARTIES HAVE READ SECTION 18 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

\_\_\_\_\_ (EMPLOYEE) \_\_\_\_\_ (COMPANY)

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.

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

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

20. CONDITIONS ON SPECIAL SEVERANCE. Notwithstanding anything else to the contrary, it is expressly understood that any obligation of the Company to pay Special Severance pursuant to this Agreement shall be subject to:

(a) Employee's continued compliance with the terms and conditions of Sections 7(a), 7(b), 7(c), 7(e), 12, 13 and 18;

(b) Employee must not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business which engages directly or indirectly in competition with the businesses of the Company or any of its affiliates, or have any interest, direct or indirect, in any person, firm, corporation, or venture which directly or indirectly competes with the

businesses of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund; and

(c) Employee must not, directly, indirectly, or in any other way, disparage the Company, its officers or employees, vendors, customers, products or activities, or otherwise interfere with the Company's press, public and media relations.

21. TRADE SECRETS OF OTHERS. It is the understanding of both the Company and Employee that Employee shall not divulge to the Company any confidential information or trade secrets belonging to others, including Employee's former employers, nor shall the Company seek to elicit from Employee any such information. Consistent with the foregoing, Employee shall not provide to the Company, and the Company shall not request, any documents or copies of documents containing such information.

22. SUPERSEDES OLD EXECUTIVE OFFICER EMPLOYMENT AGREEMENT. Employee and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Executive Officer Employment Agreement entered into December 21, 1999 (the "Old Executive 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 Executive Officer Employment Agreement entirely, that the Old Executive 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 Executive Officer Employment Agreement and this Agreement, this Agreement shall control and all 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 Delaware corporation

\_\_\_\_\_  
Michael McCormick

By: \_\_\_\_\_  
Ely Callaway, Chairman and CEO

[Rev. 8/29/00]



EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Employee's Executive Officer Employment Agreement ("Section 6"), the Company agrees to indemnify Employee with respect to certain excise tax obligations as follows:

1. Definitions. For purposes of Section 6 and this Exhibit A, the following terms shall have the meanings specified herein:

(a) "Claim" shall mean any written claim (whether in the form of a tax assessment, proposed tax deficiency or similar written notification) by the Internal Revenue Service or any state or local tax authority that, if successful, would result in any Excise Tax or an Underpayment.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended. All references herein to any section, subsection or other provision of the Code shall be deemed to refer to any successor thereto.

(c) "Excise Tax" shall mean (i) any excise tax imposed by Section 4999 of the Code or any comparable federal, state or local tax, and (ii) any interest and/or penalties incurred with respect to any tax described in 1(c)(i).

(d) Gross-Up Payment shall mean a cash payment as specified in Section 2.

(e) "Overpayment" and "Underpayment" shall have the meanings specified in Section 4.

(f) "Payment" shall mean any payment, benefit or distribution (including, without limitation, cash, the acceleration of the granting, vesting or exercisability of stock options or other incentive awards, or the accrual or continuation of any other payments or benefits) granted or paid to or for the benefit of Employee by the Company or by any person or persons whose actions result in a Taxable Event (as defined in this Section), or by any person affiliated with the Company or such person(s), whether paid or payable pursuant to the terms of this Agreement or otherwise. Notwithstanding the foregoing, a Payment shall not include any Gross-Up Payment required under Section 6 and this Exhibit A.

(g) "Taxable Event" shall mean any change in control or other event which triggers the imposition of any Excise Tax on any Payment.

2. In the event that any Payment is determined to be subject to any Excise Tax, then Employee shall be entitled to receive from the Company a Gross-Up Payment in an amount such that, after the payment of all income taxes, Excise Taxes and any other taxes imposed with respect to the Gross-Up Payment (together with payment of all interest and penalties imposed with respect to any such taxes), Employee shall retain a net amount of the Gross-Up Payment equal to the Excise Tax imposed with respect to the Payments.

3. All determinations required to be made under Section 6 and this Exhibit A, including, without limitation, whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment, and the assumptions to be utilized in arriving at such determinations, shall be made by the accounting firm of Pricewaterhouse Coopers LLP or, if applicable, its successor as the Company's independent auditor (the "Accounting Firm"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Taxable Event to which a possible Gross-Up Payment is related, another nationally recognized accounting firm that is mutually acceptable to the Company and Employee shall be appointed to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). The Accounting Firm shall provide detailed supporting calculations to the Company and to Employee regarding the amount of Excise

Tax (if any) which is payable, and the Gross-Up Payment (if any) required hereunder, with respect to any Payment or Payments, with such calculations to be provided at such time as may be requested by the Company but in no event later than fifteen (15) business days following receipt of a written notice from Employee that there has been a Payment that may be subject to an Excise Tax. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment as determined pursuant to Section 6 and this Exhibit A shall be paid by the Company to Employee within five (5) business days after receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Employee, the Accounting Firm shall furnish Employee with a written opinion that failure to disclose, report or pay the Excise Tax on Employee's federal or other applicable tax returns will not result in the imposition of a negligence penalty, understatement penalty or other similar penalty. All determinations by the Accounting Firm shall be binding upon the Company and Employee in the absence of clear and indisputable mathematical error. Following receipt of a Gross-Up Payment as provided herein, Employee shall be obligated to properly and timely report his Excise Tax liability on the applicable tax returns or reports and to pay the full amount of Excise Tax with funds provided through such Gross-Up Payment. Notwithstanding the foregoing, if the Company reasonably determines that the Employee will be unable or otherwise may fail to make such Excise Tax payment, the Company may elect to pay the Excise Tax to the Internal Revenue Service and/or other applicable tax authority on behalf of the Employee, in which case the Company shall pay the net balance of the Gross-Up Payment (after deduction of such Excess Tax payment) to the Employee.

4. As a result of uncertainty in the application of Section 4999 of the Code, it is possible that a Gross-Up Payment will not have been made by the Company that should have been made (an "Underpayment") or that a Gross-Up Payment is made that should not have been made (an "Overpayment"). In the event that Employee is required to make a payment of any Excise Tax, due to an Underpayment, the Accounting Firm shall determine the amount of Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to Employee in which case Employee shall be obligated to make a timely payment of the full amount of the applicable Excise Tax to the applicable tax authority, provided, however, the Company may elect to pay the Excise Tax to the applicable tax authority on behalf of Employee consistent with the provisions of Section 3, in which case the Company shall pay the net balance of the Underpayment (after deduction of such Excise Tax payment) to Employee. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be repaid by Employee to the Company within ninety (90) days after written demand to Employee by the Company, provided, however, that Employee shall have no obligation to repay any amount of the Overpayment that has been paid to, and not recovered from, a tax authority, provided further, however, in such event the Company may direct Employee to prosecute a claim for a refund of such amount consistent with the principles set forth in Section 5.

5. Employee shall notify the Company in writing of any Claim. Such notice (a) shall be given as soon as practicable, but in no event later than fifteen (15) business days, following Employee's receipt of written notice of the Claim from the applicable tax authority, and (b) shall include a complete and accurate copy of the tax authority's written Claim or otherwise fully inform the Company of the nature of the Claim and the date on which any payment of the Claim must be paid, provided that Employee shall not be required to give notice to the Company of facts of which the Company is already aware, and provided further that failure or delay by Employee to give such notice shall not constitute a breach of Section 6 or this Exhibit A except to the extent that the Company is prejudiced thereby. Employee shall not pay any portion of a Claim prior to the earlier of (a) the expiration of thirty (30) days following the date on which Employee gives the foregoing notice to the Company, (b) the date that any Excise Tax payment under the Claim is due, or (c) the date the Company notifies Employee that it does not intend to contest the Claim. If, prior to expiration of such period, the Company notifies Employee in writing that it desires to contest the Claim, Employee shall:

(a) give the Company any information reasonably requested by the Company relating to the Claim;

(b) take such action in connection with contesting the Claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to the Claim by an attorney selected and compensated by the Company who is reasonably acceptable to Employee;

(c) cooperate with the Company in good faith in order to effectively contest the Claim; and

(d) permit the Company to participate (at its expense) in any and all proceedings and conferences pertaining to the Claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including, without limitation, additional interest and penalties and attorneys' fees) incurred in connection with any such contest, and shall indemnify and hold Employee harmless, on an after-tax basis, for any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and all costs imposed or incurred in connection with such contests. Without limitation upon the foregoing provisions of this Section 5, and except as provided below, the Company shall control all proceedings concerning any such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with tax authorities pertaining to the Claim. At the written request of the Company, and upon payment to Employee of an amount at least equal to the Claim plus any additional amount necessary to obtain the jurisdiction of the appropriate tribunal and/or court, Employee shall pay the same and sue for a refund or otherwise contest the Claim in any permissible manner as directed by the Company. Employee agrees to prosecute any contest of a Claim to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine, provided, however, that if the Company requests Employee to pay the Claim and sue for a refund, the Company shall indemnify and hold Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and costs imposed or incurred in connection with such contest or with respect to any imputed income attributable to any advances or payments by the Company hereunder. Any extension of the statute of limitations relating to assessment of any Excise Tax for the taxable year of Employee which is the subject of a Claim is to be limited solely to the Claim. Furthermore, the Company's control of a contest as provided hereunder shall be limited to issues for which a Gross-Up Payment would be payable hereunder, and Employee shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other tax authority.

6. If Employee receives a refund from a tax authority of all or any portion of an Excise Tax paid by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, Employee shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). Employee shall, if so directed by the Company, file and otherwise prosecute a claim for refund of any Excise Tax payment made by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, with any such refund claim to be effected in accordance with the principles set forth in Section 5. If a determination is made that Employee shall not be entitled to any refund and the Company does not notify Employee in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then Employee shall have no further obligation hereunder to contest such denial or to repay to the Company the amount involved in such unsuccessful refund claim. The amount of any advances which are made by the Company in connection with any such refund claim hereunder, to the extent not refunded by the applicable tax authority to Employee, shall offset, as appropriate consistent with the purposes of Section 6 and this Exhibit A, the amount of any Gross-Up Payment required hereunder to be paid by the Company to Employee.

EXHIBIT B

CHANGE IN CONTROL

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

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

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

3. Consummation by the Company of the sale 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

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

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

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

CALLAWAY GOLF COMPANY  
EXECUTIVE DEFERRED COMPENSATION PLAN  
(AS AMENDED AND RESTATED EFFECTIVE AUGUST 22, 2000)

This Executive Deferred Compensation Plan ("Plan") has been adopted by the Board of Directors of Callaway Golf Company, a Delaware corporation ("Company"), effective August 1, 1994. This restatement of the Plan incorporates all amendments to the Plan adopted and in effect through August 22, 2000.

1. PURPOSE

The primary purpose of the Plan is to provide deferred compensation to a select group of management or highly compensated employees through an unfunded "top hat" arrangement exempt from the fiduciary, funding, vesting, and plan termination insurance provisions of Title I and Title IV of the Employee Retirement Income Security Act ("ERISA"). More specifically, the Company has adopted this Plan to provide Employees with the opportunity to defer part or all of that portion of their Compensation including amounts they are unable to defer, receive or take into account under any tax qualified deferred compensation (i.e., 401(k), pension, profit sharing or stock bonus) plan which the Company may now or hereafter maintain, as a result of the limits imposed by Sections 401(a)(4), 401(a)(17), 401(k)(3), 401(m), 402(g) and 415 of the Internal Revenue Code ("Code") on plans to which those sections of the Code apply. To the extent that a separable part of the Plan is maintained for the purpose of providing benefits in excess of those permitted by Section 415 of the Code, that part of the Plan may be treated as an excess benefit plan within the meaning of Section 3(36) of ERISA. The purposes of this Plan include the deferral of payment of fees to be earned by outside directors, i.e., members of the Board who are not officers or common-law employees of Callaway Golf, within the meaning of Section 3121 of the Code.

2. DEFINITIONS AND CAPITALIZED TERMS

When used in this Plan document, the capitalized terms set forth in alphabetical order herein have the definitions specified below unless the context in which the term appears clearly requires a different meaning.

a. "ACCOUNT" refers to the bookkeeping entries established and maintained by the Company or the Committee for the purpose of recording (i) the amounts of Compensation deferred by an Employee under this Plan, (ii) any hypothetical investment earnings, losses, interest accruals or administrative expenses with respect to those amounts, and (iii) any distributions to an Employee or Beneficiary.

b. "BENEFICIARY" refers to the person or entity selected to receive any portion of an Employee's Account that has not been distributed from the Plan at the time of the Employee's death. Such designation shall be on a form provided or approved by the Plan Administrator. If an Employee fails to designate a Beneficiary or no designated Beneficiary survives the Employee, the Plan Administrator may direct payment of benefits to the following person or persons in the order given below: the Employee's

- (i) spouse,
- (ii) descendants, per stirpes,
- (iii) parents,
- (iv) brothers and sisters, or
- (v) estate of the Participant.

c. "BOARD" or "BOARD OF DIRECTORS" refers to the Board of Directors of the Company.

d. "CODE" refers to the Internal Revenue Code of 1986, as amended from time to time.

e. "COMMITTEE" or "ADMINISTRATIVE COMMITTEE" refers to the officers of the Company who act on behalf of the Company in discharging the Company's duties as the Plan Administrator. Notwithstanding any other provision of the Plan document, any member of the Committee or any other officer or employee of the Company who exercises discretion or authority on behalf of the Company shall not be a fiduciary of the Plan merely by virtue of his or her exercise of such discretion or authority. The Board shall identify the Company officers who shall serve as members of the Committee. Because this Plan is a "top hat" arrangement, neither the Company nor the Committee shall be subject to the duties imposed by the provisions of Part 4 of Title I of ERISA.

f. "COMPANY," "CORPORATION" or "EMPLOYER" refers to Callaway Golf Company, a Delaware corporation.

g. "COMPANY 401(K) PLAN" refers to the Callaway Golf Company defined contribution plan intended to satisfy the requirements of Sections 401(a), 401(k), 401(m) and 414(i) of the Code. References to the Company 401(k) Plan or to the Company Matching Contributions, below, are for purposes of measurement only. Nothing in this Plan contemplates a transfer of contributions or assets from the Company 401(k) Plan to this Plan or conditions participation in this Plan upon an Employee's participation or nonparticipation in the Company 401(k) Plan.

h. "COMPANY MATCHING CONTRIBUTIONS" refers to contributions, if any, made by the Company or any Subsidiary pursuant to Section 5.6 of this Plan. Said contributions may be measured with reference to matching contributions under the Company 401(k) Plan.

i. "COMPENSATION" refers to an Employee's gross salary, including any commissions, bonuses or awards, payable by the Company or any Subsidiary after an Employee first becomes eligible to participate in this Plan and during the period through which such participation continues. For the 1994 Plan Year, the Compensation an Employee may defer under the Plan is limited to bonuses earned in 1994 and determined after July 31, 1994. For outside directors, Compensation refers to directors fees payable by the Company after the outside director first becomes eligible to participate in this Plan and during the period through which such participation continues. For the 1998 Plan Year, the Compensation an outside director may defer under the Plan is limited to fees first payable by Callaway Golf after December 31, 1997, for services to be rendered after that date.

j. "DISABLED" or "DISABILITY" refers to a physical or mental condition of an Employee which (i) occurs after an Employee first defers Compensation under this Plan, (ii) results from an injury, disease or disorder, and (iii) renders the Employee totally and permanently incapable of continuing in his or her customary employment with the Company or any Subsidiary. In determining whether an Employee is disabled, the Committee may rely upon the conclusions of any insurance carrier that has issued a policy of insurance covering the Employee or upon the conclusions of any physician acceptable to the Committee. An Employee will automatically satisfy the requirements under this Plan, with respect to submission of evidence of disability, throughout the period that he or she remains qualified for Social Security disability benefits. Any Employee who believes that he or she is entitled to any advantage, benefit or other consideration under the Plan as a result of being Disabled shall apply to the Committee for such consideration and shall provide any evidence of Disability which the Committee in its discretion may request in a manner consistent with the Americans with Disabilities Act of 1990 and other relevant laws.

k. "EFFECTIVE DATE" refers to August 1, 1994 (with respect to Compensation first earned, determined or payable after that date) contingent upon approval of the Plan by the Board of Directors of the Company.

l. "EMPLOYEE" refers to any employee, within the meaning of Section 3121(d) of the Code, who is highly compensated or is a member of management selected by the Board to participate in this Plan or in any other executive deferred compensation arrangement maintained by the Company or any Subsidiary. In determining whether an employee is described in the preceding sentence, an employee shall be considered to be highly compensated if the employee's annual Compensation exceeds \$150,000 or such greater amount permitted to be considered under Section 401(a)(17) of the Code. Where the Plan Administrator considers appropriate in applying the provisions of this Plan, the term Employee shall include only persons who are Participants or Inactive Participants under the Plan. If the Board amends the Plan to allow participation by outside directors or other independent contractors, the term Employee shall refer to such outside director or independent contractor. Because the Board has amended the Plan to allow participation by outside directors, effective November 1, 1997, the term Employee shall include references to members of Callaway Golf's Board who are not officers or common-law employees of Callaway Golf, within the meaning of Code Section 3121. To the extent necessary for the orderly administration of the Plan, all definitions and other provisions of the Plan shall be construed in a manner consistent with participation by outside directors and with their deferral of the inclusion of fees into gross income for federal and state income tax purposes.

m. "ERISA" refers to the Employee Retirement Income Security Act of 1974, as amended from time to time.

n. "EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

o. "HARDSHIP" refers to an Employee's immediate and heavy financial need caused by an unforeseeable emergency, as described in Treasury Regulations Section 1.457-2(h)(4) and (5). In general, but without limitation, the Plan Administrator shall approve a Hardship withdrawal from an Employee's Account if the

reduction does not exceed the amount needed to pay for the following unreimbursed expenses: (i) medical expenses defined in Code Section 213(d) and incurred (or to be incurred) during the calendar year by the Employee, or his or her spouse or dependents (as described in Code Section 152) as a result of a sudden or unexpected illness or accident; (ii) loss of a participant's property as a result of a casualty or other extraordinary, unforeseeable circumstances attributable to forces beyond the participant's control; and (iii) other costs recognized by the Plan Administrator to pose an immediate and heavy financial need on the Employee as a result of an unforeseeable emergency.

p. "INACTIVE PARTICIPANT" refers to an Employee who deferred Compensation under the Plan during a previous Plan Year but who does not defer any Compensation payable during the current Plan Year.

q. "INSOLVENCY" shall exist if Callaway Golf Company is (a) unable to pay its debts as they come due or (b) subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

r. "PARTICIPANT" refers to an eligible Employee who elects to defer under the Plan part or all of his or her Compensation payable during the current Plan Year.

s. "PLAN" shall mean this Callaway Golf Company Executive Deferred Compensation Plan, as amended from time to time.

t. "PLAN ADMINISTRATOR" refers to the Company.

u. "PLAN YEAR" refers to the calendar year; however, the first Plan Year shall be the period beginning August 1, 1994 and ending December 31, 1994.

v. "SUBSIDIARY" refers to any corporation, partnership, limited liability company or other entity, domestic or foreign, in which the Company directly or indirectly owns 50% or more of the total combined power to cast votes in the election of directors, managing partners, managers or similar officials, and which has been included within the coverage of the Plan by the Board of Directors, in its sole discretion.

w. "TERMINATION OF EMPLOYMENT" refers to an Employee's (i) separation from service with the Company or any Subsidiary, (ii) refusal or failure to return to work within five working days after the date requested by the Company or any Subsidiary or (iii) failure to return to work at the conclusion of a leave of absence. If the Board amends the Plan to allow participation by outside directors or other independent contractors, the phrase Termination of Employment shall refer to the cessation of all services rendered to the Company or any Subsidiary by the outside director or independent contractor. In the case of outside directors, Termination of Employment or Termination refers to the voluntary or involuntary cessation of all services as an outside director without the commencement or recommencement of service as an officer or common-law employee of the Company, within the meaning of Code Section 3121.

x. "TRUST" shall mean any trust or other vehicle established by the Company to meet its obligations under the Plan.



### 3. ELIGIBILITY

3.1 The Board or the Committee, in its sole discretion, may designate from time to time those Employees of the Company or any Subsidiary who are eligible to participate in the Plan for one or more Plan Years and the date upon which each such Employee's participation may commence. All designated Employees shall be notified by the Board or the Committee of their eligibility to participate. An Employee shall cease to be eligible when the Employee ceases both (i) to be a member of a select group of management and (ii) to be highly compensated as described in Section 2(k) above. Additionally, at the discretion of the Board or Committee, an Employee shall not be eligible to participate in the Plan (a) while the Employee has an unpaid loan from any tax-qualified deferred compensation plan maintained by the Company or any Subsidiary or (b) during the Plan Year immediately following the Plan Year in which the Employee takes a Hardship withdrawal from the Plan. The Effective Date of any such ineligibility shall be the first day of the Plan Year coinciding with or next following the date on which the Board or Committee provides the Employee with notice of revocation of eligibility. An Employee's eligibility to participate in the Plan does not confer upon the Employee any right to any award, bonus or remuneration of any kind.

3.2 The Committee administering the Plan or in the case of outside directors a subcommittee on which no outside director participates, in its sole discretion, may designate from time to time those outside directors of the Company who are eligible to participate in the Plan for one or more Plan Years and the date upon which each such director's participation may commence. All designated outside directors shall be notified by the Committee of their eligibility to participate. An outside director shall cease to be eligible to defer Compensation under the Plan when he or she ceases to be an outside director or when the Committee, in its sole discretion, designates the outside director as no longer eligible to participate in the Plan. An outside director's eligibility to participate in the Plan does not confer upon the outside director any right to any fee, remuneration or right to continued participation, election or appointment of any kind.

### 4. DEFERRAL OF COMPENSATION

#### 4.1 ELECTION TO DEFER

An Employee who is eligible to participate in the Plan may elect to defer the receipt of Compensation by completing a deferral election form provided or approved by the Company or Committee. Pursuant to the deferral election form, an eligible Employee may elect to defer any whole percentage or fixed dollar amount of his or her Compensation. An Employee who elects to participate in the Plan must defer at least \$2,000 in Compensation for each Plan Year in which he or she remains eligible to participate. An outside director who is eligible to participate in the Plan may elect to defer the receipt of Compensation by completing a deferral election form provided or approved by the Company or Committee. Pursuant to the deferral election form, an eligible outside director may elect to defer any whole percentage or fixed dollar amount of his or her Compensation. An outside director who elects to participate in the Plan must defer at least \$2,000 in Compensation for each Plan Year in which he or she remains eligible to participate.

#### 4.2 DATE OF DEFERRAL

To the extent provided in Section 4.6, this Section 4.2 shall not apply to the deferral election of an Employee or outside director made no later than the end of the period described in Section 4.6, with respect to his or her initial participation in the Plan (as determined under Section 3.1 or 3.2). An eligible Employee must submit his or her deferral election form to the Committee no later than the last day of the deferral election period. The last day of the deferral election period shall be (a) the last day preceding the calendar year in which the eligible Employee will render the services for which he or she will receive any part of the Compensation (including bonus) payable to the Employee during that year or (b) with respect to the deferral of Compensation earned during 1994 Plan Year, not later than 30 days after the Effective Date. At the time of the deferral election, the Employee must specify the form in which distributions shall occur under the Plan. An eligible outside director must submit his or her deferral election form to the Committee no later than the last day of the deferral election period. The last day of the deferral election period shall be December 31st, the last day preceding the calendar year in which the eligible director will render the services for which he or she will receive any part of the Compensation payable during that calendar year. At the time of the deferral election, the outside director must specify, on the Plan's enrollment form, the event or date upon the occurrence of which distributions are to commence under the Plan and the form in which such distributions shall be made.

#### 4.3 MULTIPLE ELECTIONS

An election to defer Compensation shall be effective on the date an eligible Employee delivers a completed deferral election to the Committee; provided, however, that, if the eligible Employee delivers another properly completed deferral election form to the Committee prior to the close of the deferral election period described in Section 4.2, the deferral election on the form bearing the latest date shall control. After the last day of the election period, the controlling election made prior to the close of the period shall be irrevocable. An election to defer Compensation shall be effective on the date an eligible outside director delivers a completed deferral election to the Committee; provided, however, that, if the eligible outside director delivers another properly completed deferral election form to the Committee prior to the close of the deferral election period described in Section 4.2, the deferral election on the form bearing the latest date shall control. After the last day of the election period, the controlling election made prior to the close of the period shall be irrevocable.

#### 4.4 ANNUAL ELECTIONS

To the extent provided in Section 4.6, this Section 4.4 shall not apply to a deferral election of an Employee or outside director made no later than the end of the period described in Section 4.6, with respect to his or her initial participation in the Plan (as determined under Section 3.1 or 3.2). In order to defer any portion of Compensation earned in any calendar year after the 1994 calendar year, an eligible Employee must submit at least one completed deferral election form during the 3-month period immediately preceding the start of that calendar year. In order to defer any portion of Compensation earned in any calendar year after the 1997 calendar year, an eligible outside director must submit at least one completed deferral election form during the 3-month period immediately preceding the start of that calendar year.

#### 4.5 NO DEFERRAL ADJUSTMENTS

After an annual election has taken effect for any Plan Year, a Participant may not increase or decrease the percentage or amount of Compensation to be deferred during that Plan Year; except that a Participant must cease deferrals under the Plan to the extent that such cessation may relieve the Participant of one or more Hardships without any withdrawals under this Plan. After an annual election has taken effect for any Plan Year, an outside director may not increase or decrease the percentage or amount of Compensation to be deferred during that Plan Year; except that an outside director must cease deferrals under the Plan to the extent that such cessation may relieve the outside director of one or more Hardships, as defined in Section 2 of the Plan, without any withdrawals under this Plan.

#### 4.6 NEW ELIGIBLE EMPLOYEES AND OUTSIDE DIRECTORS

Notwithstanding any other provision of the Plan, an individual who first becomes eligible to participate in the Plan, pursuant to Plan Sections 3.1 or 3.2, may submit his or her deferral election form to the Committee not later than 30 days following the date of such eligibility. The Participant's deferral election will be effective as to Compensation payable for services rendered after the date the form is received by the Committee. The Participant must specify, in the manner required by the Committee, the event or date upon the occurrence of which distributions are to commence under the Plan and the form of such distributions. An Employee or outside director who does not submit a deferral election by the end of the period described in this Section 4.6 may not elect to defer any portion of his or her Compensation until the following January 1, in accordance with Sections 4.2 and 4.4.

### 5. DEFERRED COMPENSATION ACCOUNTS

#### 5.1 MAINTENANCE OF ACCOUNTS

The Plan Administrator shall maintain one or more bookkeeping Accounts with respect to any Compensation deferred by an eligible Employee under Section 4 above. The Plan Administrator shall credit the Account with the full amount of Compensation deferred in any payroll period. If the Compensation deferred is subject to federal or state employment taxes (e.g., taxes under the Federal Insurance Contributions Act or Federal Unemployment Tax Act), said taxes shall be withheld and deducted from a portion of the Employee's Compensation not deferred under this Plan. A Participant or Inactive Participant shall be fully vested at all times in amounts deferred under Section 4 above, as adjusted for any earnings, losses, interest accruals, administrative expenses or distributions as described below.

#### 5.2 INVESTMENT ELECTIONS

In accordance with rules, procedures and options established by the Committee, a Participant shall have the right to express preferences with respect to the investment of his or her Account, except for any period of time during which the Company limits Account earnings to interest accruals under Section 5.4 below. In accordance with procedures established by the Plan Administrator, a Participant may change his or her investment preferences twice each Plan Year. Such changes may be

made, if at all, during the three-week period immediately following the quarterly distribution of individual account statements. As a general rule, an investment preference expressed by a Participant shall take effect on the first business day of the month following the Participant's communication of such preference. Ordinarily, a participant's communication occurs only when the Committee, the Company, the Plan Administrator, the trustee of the Trust (or any person designated by any of them to process or implement investment instructions) receives actual notice of a Participant's investment preference. A Participant may transmit such notice by any means of communication which the Company may permit under the Plan, such as hand delivery, U.S. Mail, commercial courier, telephone, facsimile or Internet. The Participant assumes any risk posed by the means of communication which he or she selects.

Although the Company shall have the hypothetical obligation to follow the Participant's investment preferences, the Company, in its sole discretion, may satisfy its hypothetical obligation from time to time in one or both of the following ways. First, the Company may invest assets hypothetically allocable to the Participant's Accounts in the specific investments, in the specific amounts and for the specific periods requested by the Participant; and the Company must credit or charge the Participant's Accounts with the earnings, gains or losses resulting from such investments. Second, the Company reserves the right -- exercisable in its sole discretion at any time and from time to time, without notice or Plan amendment -- to add, modify, suspend, terminate or override (i) any investment preference communicated by a Participant, (ii) any investment option made available to a Participant, or (iii) any means of communicating investment preferences and other information under the Plan; provided, however, the Company must credit or charge the Participant's Accounts with the same earnings, gains or losses that the Participant would have incurred if the Company had invested the assets hypothetically allocable to the Participant's Accounts in the specific investments, in the specific amounts and for the specific periods requested by the Participant.

If this Plan is determined to be subject to the fiduciary provisions of Part 4 of Title I of ERISA, this Plan shall be treated as a Plan described in Section 404(c) of ERISA and Title 29 of the Code of Federal Regulations Section 2550.404c-1, in which Plan fiduciaries may be relieved of liability for any losses which are the direct and necessary result of investment instructions given by a Participant or Beneficiary.

### 5.3 INVESTMENT EARNINGS OR LOSSES

Except for any period of time during which the Company limits bookkeeping Account earnings to hypothetical interest accruals under Section 5.4 below, any amounts credited to the bookkeeping Account of a Participant or Inactive Participant as a result of the deferral of all or part of his or her Compensation may increase or decrease as a result of the Company's investment of such amounts during the Plan Year, as described in Section 5.2 above. A ratable share of the Plan's hypothetical investment earnings or losses under this Section 5.3 shall be credited to the bookkeeping Account of a Participant or Inactive Participant, as determined in good faith by the Committee. At the sole discretion of the Committee, for any Plan Year, the Committee may allocate to the Participant's bookkeeping Account either (i) the full amount of the Participant's share of the Plan's hypothetical investment earnings or losses or (ii) the full amount of such share adjusted for any federal, state or local income or employment tax consequences attributable to such hypothetical earnings or losses. If

the full amount of such hypothetical investment earnings or losses are allocated to a Participant's Account, any federal, state or local income or employment tax consequences attributable to such earnings or losses under this Section 5.3 shall be borne by or inure to the benefit of the Company. The Participant and his or her Beneficiary understand and agree that they assume all risk in connection with any decrease in the value of the Compensation deferred under the Plan and invested in accordance with these Sections 5.2 and 5.3.

#### 5.4 INTEREST ACCRUALS

During each Plan Year in which the Company does not invest an Employee's deferred Compensation as described in Sections 5.2 and 5.3 above, any amounts credited to the bookkeeping Account of a Participant or Inactive Participant as a result of the deferral of all or part of his or her Compensation shall accrue hypothetical interest compounded annually, as consideration for the use or forbearance of money. The hypothetical accrual of interest begins and the compounding of interest occurs on January 1 of each Plan Year or, if later, the date on which an eligible Employee first defers Compensation under the Plan. The rate at which interest accrues shall equal the prime rate, plus one percent, offered to borrowers by a commercial bank in San Diego, California on December 31st of the Plan Year during which the accrual occurs. The Committee shall select the commercial bank before December 1 of the Plan Year during which the accrual occurs. At the sole discretion of the Company, for any Plan Year (i) the full amount of such hypothetical accrued interest may be allocated to a Participant's Account or (ii) adjusted for any federal, state or local income or employment tax consequences attributable to such interest, prior to allocating such hypothetical interest to a Participant's Account. If the full amount of such interest accruals are allocated to a Participant's Account, any federal, state or local income or employment tax consequences attributable to interest accruals under this Section 5.4 shall be borne by or inure to the benefit of the Company.

#### 5.5 INVESTMENT OF UNPAID BALANCES

The unpaid balance of all Accounts payable under the Plan shall continue to be credited with the hypothetical investment earnings or losses described in Sections 5.2 and 5.3 above or hypothetical accruals of interest as described in Section 5.4 above. The unpaid balance of all Accounts of any outside director under the Plan shall continue to be credited with the hypothetical investment earnings or losses described in Sections 5.2 and 5.3 of the Plan or hypothetical accruals of interest as described in Section 5.4 of the Plan until said Accounts have been distributed in their entirety.

#### 5.6 COMPANY MATCHING CONTRIBUTIONS

a. At the end of any Plan Year for which an eligible Employee has deferred Compensation under this Plan, the Committee may add to his or her Accounts no more than the lesser of (1) \$25,000 or (2) an amount equal to the Company Matching Contribution which the Employee would have received if (i) the Employee had contributed, to the Company 401(k) Plan, the amounts deferred under this Plan and (ii) the limitations described in Section 1 above did not apply to the Company 401(k) Plan. Nothing in the preceding sentence shall require the Company to make Matching Contributions to the Account of any Participant in any Plan Year or

create a presumption that Matching Contributions allocated under this Plan shall be determined with reference to Matching Contributions under the Company 401(k) Plan. Once credited to an Employee's Accounts under this Plan, the amounts described in the preceding sentence shall accrue the hypothetical investment return described in Sections 5.2, 5.3, 5.4 and 5.5 above, and shall be payable in accordance with Section 7 below.

b. Subject to the provisions of Section 5.6(c) below, an Employee shall be fully vested in amounts allocated to his or her Account as described in Section 5.6(a).

c. Without regard to the number of years of service an Employee has completed with the Company or any Subsidiary and without regard to an Employee's Disability, if an Employee separates from service with the Company or any Subsidiary as a result of the Employee's gross misconduct, within the meaning of Part 6 of Title I of ERISA, regarding group health continuation coverage, or if the Employee engages in unlawful business competition with the Company or any of its subsidiaries, the Employee shall forfeit all amounts allocated to his or her bookkeeping Accounts under Section 5.6(a) above and all hypothetical earnings thereon. Such forfeitures will be used to reduce the Company's obligation, if any, to make Matching Contributions to other Participants or to defray the expenses of administering the Plan.

d. References to the Company 401(k) Plan or to Company Matching Contributions are for purposes of measurement only. Nothing in this Plan contemplates a transfer of contributions or assets from the Company 401(k) Plan to this Plan or conditions participation in this Plan upon an Employee's participation or nonparticipation in the Company 401(k) Plan.

e. At the end of any Plan Year for which an eligible outside director has deferred Compensation under this Plan, the Committee may add to his or her Accounts no more than the lesser of (i) \$25,000 or (ii) an amount equal to the Company Matching Contribution which the outside director would have received if (a) the outside director had been eligible to contribute and had contributed, to the Company 401(k) Plan, the amounts deferred under this Plan and (b) the limitations described in Section 1 of this Plan did not apply to the Company 401(k) Plan. Nothing in the preceding sentence shall require the Company to make Matching Contributions to the Account of any outside director in any Plan Year or create a presumption that Matching Contributions allocated under this Plan to outside directors shall be determined with reference to Matching Contributions actually made under the Company 401(k) Plan or under this Plan for Participants who are officers or common-law employees of the Company. Once credited to an outside director's Accounts under this Plan, the amounts described in the preceding sentences shall accrue the hypothetical investment return described in Section 5.2, 5.3, 5.4 and 5.5 of the Plan, and shall be payable in accordance with Section 7 of the Plan.

f. Subject to the provisions of Section 5.6(g) of the Plan, an outside director shall be fully vested in amounts allocated to his or her Account as described in Section 5.6(e) of the Plan.

g. Without regard to the number of years of service an outside director has completed with the Company and without regard to an outside director's Disability, as defined in the Plan, if an outside director resigns or is removed from service with the Company as a result of the outside director's gross misconduct, as determined in good faith by the Committee, or if the outside director engages in unlawful business competition with the Company or any of its subsidiaries, the outside director shall forfeit all amounts allocated to his or her bookkeeping Accounts under Section 5.6(e) of the Plan and all hypothetical earnings thereon. Such forfeitures will be used to reduce the Company's obligation, if any, to make Matching Contributions to other Participants or to defray the expenses of administering the Plan.

#### 5.7 DISCRETIONARY CONTRIBUTIONS

Apart from Compensation deferrals and Matching Contributions, the Company may but need not make additional contributions in any amount at any time for any Employee under this Plan. Except for limits on the amount and timing of such Company contributions, these discretionary contributions shall be subject to the same vesting, distribution, benefit election, investment direction and other Plan provisions that apply to Matching Contributions.

#### 5.8 COMPANY'S GENERAL ASSETS

Participant understands and agrees that all Compensation deferred under the Plan and all amounts credited to a Participant's Account under the Plan (a) are the general assets of the Company, (b) may be used in the operation of the Company's business or in any other manner permitted by law, and (c) remain subject to the claims of the Company's creditors. Participant agrees, on behalf of Participant and his or her Beneficiary, that (i) title to any amounts deferred under the Plan or credited to a Participant's Account remains in the Company and (ii) neither Participant nor his or her Beneficiary has any property interests whatsoever in said amounts, except as general creditors of the Company. Each outside director understands and agrees that all Compensation deferred under this Plan and all amounts credited to his or her Accounts under the Plan (a) are the general assets of the Company, (b) may be used in the operation of the Company's business or in any other manner permitted by law, and (c) remain subject to the claims of the Company's creditors. Each outside director agrees, on his or her own behalf and on behalf of his or her Beneficiaries and dependents, that (i) title to any amounts deferred under this Plan or credited to an outside director's Account remains in the Company and (ii) neither the outside director nor his or her Beneficiaries, dependents or successors have any property interests whatsoever in said amounts, except as general creditors of the Company.

#### 6. EFFECT ON EMPLOYEE BENEFITS

Amounts deferred under this Plan or distributed pursuant to the terms of this Plan are not taken into account in the calculation of an Employee's benefits under any employee pension or welfare benefit program or under any other compensation practice maintained by the Company or any Subsidiary, except to the extent provided in such program or practice.

7. PAYMENT OF DEFERRED COMPENSATION ACCOUNTS

7.1 INCOME TAX OBLIGATIONS

The Plan Administrator may make payments before they would otherwise be due if, based on a change in the federal tax or revenue laws, a published ruling or similar announcement issued by the Internal Revenue Service, a regulation issued by the Secretary of the Treasury, a decision by a court of competent jurisdiction involving a Participant, Inactive Participant or Beneficiary or a closing agreement made under Section 7121 of the Internal Revenue Code that is approved by the Internal Revenue Service and involves a Participant, Inactive Participant or Beneficiary, the Plan Administrator determines that the Participant, Inactive Participant or Beneficiary has or will recognize income for federal income tax purposes with respect to amounts that are or will be payable under the Plan before they are to be paid. If an Employee is assessed federal, state or local income taxes by reason of, and computed on the basis of, his or her undistributed deferred Compensation or undistributed interest accruals, earnings or gains on his or her Account, the Employee shall notify the Company in writing of such assessment and there shall be distributed, within thirty (30) days following such notice, from the Employee's bookkeeping Account deferred Compensation, accrued interest, earnings or gains in an amount equal to such tax assessment, together with any interest due and penalties assessed thereupon; provided however, that if the Company determines that such assessment is improper, it may request that the Employee contest the assessment, at the expense of the Company (which expense shall include all costs of appeal and litigation, including legal and accounting fees, and any additional interest assessed on the deficiency from and after the date of the Employee's notice to the Company); and during the period such contest is pending, the sums otherwise distributable pursuant to this Section 7.1 shall not be distributed.

7.2 IN-SERVICE WITHDRAWALS

A. WITHDRAWALS TO MEET HARDSHIPS

If at any time following the first anniversary of participation in the Plan, an Employee incurs a Hardship, described in Section 2(o), the Employee may, by written notice to the Committee, request that all or any specified part of his or her Account, but not less than \$1,000 per withdrawal, be paid to the Employee; and such distribution, if approved by the Company, shall be made in a lump sum within thirty (30) days following the Company's receipt of such notice. The Company shall have exclusive authority to determine whether to make a Hardship distribution from an Employee's Account but shall not unreasonably deny a request for such a distribution. The Company's decision shall be final and binding on all parties. Any Hardship withdrawals from an Account shall reduce the amount available for subsequent distributions from the Account, as the Company in good faith may determine.

B. OTHER WITHDRAWALS

Prior to the termination of his or her employment, a Participant may not withdraw any funds from his or her Account, except as provided in Section



7.2.a. above. Notwithstanding the foregoing, the Plan Administrator may make in-service distributions upon the termination of the Plan.

### 7.3 TERMINATION OF EMPLOYMENT

Upon Termination of Employment of a Participant or Inactive Participant, the Company shall distribute his or her Account under the Plan, as elected by the Participant or Inactive Participant (at the time of his or her deferral of Compensation) in a lump sum or in five, ten or fifteen substantially equal annual installments. For terminations prior to January, 1, 1999, the payment from the account shall occur or commence within 30 days after the first day of the calendar year immediately following the calendar year in which the Termination of Employment occurs. For terminations after December 31, 1998, the payment from the Account shall occur or commence within the 30-day period immediately following the Termination of Employment.

### 7.4 DISABILITY

Upon the Disability of a Participant or Inactive Participant prior to Termination of Employment, the Company shall distribute his or her Account under the Plan, as elected by the Participant or Inactive Participant, in a lump sum or in five or more (but not more than 15) substantially equal annual installments. The payment from the Account shall occur or commence within 30 days after the first day of the calendar year immediately following the calendar year in which the Disability results in the Employee's Termination of Employment. Prior to the death of the Participant or Inactive Participant, during any period in which a Participant or Inactive Participant remains Disabled, he or she (or his or her legal representative) may request Hardship withdrawals from any undistributed portion of his or her Account. Any such Hardship withdrawals shall reduce the amount available for subsequent distributions from the Account, as the Company in good faith may determine.

### 7.5 DEATH PRIOR TO COMMENCEMENT OF DISTRIBUTIONS

Upon the death of a Participant or Inactive Participant prior to the commencement of any distribution under Sections 7.3. or 7.4 above, the Account of such Participant or Inactive Participant shall be distributed to his or her Beneficiary, in a lump sum or in five or more (but not more than 15) substantially equal annual installments, as elected at the time of the deferral of Compensation under the Plan. The payment from the Account shall occur or commence within 30 days after the first day of the calendar year immediately following the calendar year in which the death of the Participant or Inactive Participant occurs. During the period between the death of the Participant or Inactive Participant and the commencement of distributions to the Beneficiary, the Beneficiary may request Hardship withdrawals from any undistributed portion of his or her Account. Any such Hardship withdrawals shall reduce the amount available for subsequent distributions from the Plan, as the Company in good faith may determine.

### 7.6 DEATH AFTER COMMENCEMENT OF DISTRIBUTIONS

Upon the death of a Participant or Inactive Participant after the commencement of any distribution in accordance with Sections 7.3 or 7.4 above, the

balance remaining in the Account of such Participant or Inactive Participant shall be distributed to his or her Beneficiary in accordance with the terms elected by the Participant or Inactive Participant under Sections 7.3 or 7.4.

#### 7.7 DEFAULT DISTRIBUTION

The Company or any Subsidiary shall accelerate the payment of Accounts under the Plan as a lump sum payment (i) if an Employee terminates employment with the Company or any Subsidiary at a time when the value of his or her Account is less than \$10,000 or (ii) if an Employee who has elected installment distributions, terminates employment with the Company or any of its subsidiaries and works for a competitor of the Company. Additionally, if a Participant or Inactive Participant fails to make an election offered under Section 7.3 or 7.4 above, the Committee shall distribute the Account in a lump sum within 30 days after the Account first becomes payable under the Plan.

#### 7.8 WITHHOLDING AND OTHER TAX CONSEQUENCES

From any payments made under this Plan, the Company shall withhold any taxes or other amounts which federal, state or local law requires the Company to deduct, withhold and deposit. The Company's determination of the type and amount of taxes to be withheld from any payment shall be final and binding on all persons having or claiming to have an interest in this Plan or in any Account under this Plan. Any adverse consequences incurred by a Participant or Inactive Participant with respect to his or her participation in the Plan or in connection with a distribution from or vesting under the Plan shall be the sole responsibility of the Participant or Inactive Participant.

#### 7.9 PAYMENTS TO OUTSIDE DIRECTORS

##### A. PRE-TERMINATION WITHDRAWALS

Prior to Termination, as defined in Section 2 above, an active or inactive Participant who is or was an outside director may make withdrawals from his or her Account only in the event of (i) Hardship as defined in Section 2 of the Plan, (ii) unanticipated income tax obligations with respect to the Compensation deferred under this Plan or (iii) the Company's liquidation of the Plan as permitted or required under Section 7 of the Plan.

##### B. POST-TERMINATION DISTRIBUTIONS

On or after Termination as a result of death, disability or other cessation of services as a director, an active or inactive Participant who was an outside director (or his or her Beneficiaries) shall receive distributions at the time and in the manner (lump sum or installments) as permitted or required under Section 7 of the Plan.

##### C. INCOME AND SELF-EMPLOYMENT TAXES

Because outside directors are not common-law employees of the Company, the Company has no responsibility to deduct, withhold or deposit any federal, state or local income or employment taxes. Outside directors are responsible for the

determination, computation and satisfaction of any income, employment, estate, excise or other tax obligation with respect to the deferral of income, the allocation of hypothetical investment return, or the vesting in or distribution of Accounts under this Plan.

8. UNFUNDED STATUS OF PLAN

All amounts deferred under this Plan remain or become general assets of the Company. All payments under this Plan shall come from the general assets of the Company. The amounts credited to an Employee's Account are not secured by any specific assets of the Company or any Subsidiary. This Plan shall not be construed to require the Company or any Subsidiary to fund any of the benefits provided hereunder or to establish a trust or purchase an insurance or other product for such purpose. The Company or any Subsidiary may make such arrangements as it desires to provide for the payment of benefits. Neither an Employee, Participant or Inactive Participant nor his or her Beneficiary or estate shall have any rights against the Company with respect to any portion of any Account under the Plan except as general unsecured creditors nor against any Subsidiary. No Employee, Participant, Inactive Participant, Beneficiary or estate has an interest in any Account under this Plan until the Employee, Participant, Inactive Participant, Beneficiary or estate has a right to receive payment from the Account.

9. SUSPENSION OF PAYMENTS IN THE EVENT OF COMPANY'S INSOLVENCY

At all times during the continuance of any trust established in connection with this Plan ("Trust"), if the Plan Administrator determines that the Company's financial condition is likely to result in the suspension of benefit payments from the Trust, the Plan Administrator shall advise Participants, Inactive Participants and Beneficiaries that payments from the Trust shall be suspended during the Company's insolvency. If the Trustee subsequently resumes such payments, the Administrator shall advise Participants, Inactive Participants and Beneficiaries that, if Trust assets are sufficient, the first payment following such discontinuance shall include the aggregate amount of all payments due to Participants, Inactive Participants and Beneficiaries under the terms of the Plan for the period of such discontinuance, less the aggregate amount of any payments made directly by the Company during any period of discontinuance. At no time shall any insufficiency of Trust assets relieve the Company of its obligation to make payments when due under the Plan.

10. NON-ALIENATION OF BENEFITS

The interest of any Employee, Participant, Inactive Participant or Beneficiary shall not be subject to sale, assignment, transfer, conveyance, hypothecation, encumbrance, garnishment, attachment, anticipation, pledge, alienation or other disposition prior to actual distribution from the Plan; and any attempt to effect such disposition shall be void. No portion of any Account shall, prior to receipt thereof, be subject to the debts, contracts, liabilities, or engagements of any Employee, Participant, Inactive Participant, or Beneficiary. Nothing in the preceding sentence shall prohibit the Company from recovering from an Employee, Participant, Inactive

Participant or Beneficiary any payments to which he or she was not entitled under the Plan.

11. LIMITATION OF RIGHTS

Nothing in this Plan document or in any related instrument shall cause this Plan to be treated as a contract of employment within the meaning of the Federal Arbitration Act, 9 U.S.C. 1 et seq., or otherwise shall be construed as evidence of any agreement or understanding, express or implied, that the Company or any Subsidiary (a) will employ any person in any particular position or level of Compensation, (b) will offer any person initial or continued participation or awards in any commission, bonus or other compensation program, or (c) will continue any person's employment with the Company or any Subsidiary.

12. NOTICE UNDER WARN

Any amounts paid (i) to any Employee under the Worker Adjustment and Retraining Notification Act of 1988 ("WARN") or under any other laws regarding termination of employment, or (ii) to any third party for the benefit of said Employee or for the benefit of his or her dependents shall not be offset or reduced by any amounts paid or determined to be payable by the Company to said Employee or to his or her dependents under this Plan.

13. AMENDMENT OR TERMINATION OF PLAN

a. The Board of Directors may modify, suspend or terminate the Plan in any manner at any time. Such modification, suspension or termination may not reduce any accrued vested benefits allocated to a Participant's Account under this Plan, but may modify, suspend or terminate future accruals or allocations under the Plan and may alter any other aspects of the Plan.

b. In modifying, suspending or terminating the Plan, or in taking any other action with respect to the implementation, operation, maintenance or administration of the Plan, the Board of Directors may act by a resolution of the Board.

c. This Plan shall terminate immediately if an impartial arbitrator or court of competent jurisdiction determines that this Plan is not exempt from the fiduciary provisions of Part 4 of Title I of ERISA. The Plan shall terminate as of the date it ceased to be exempt.

d. Upon termination of the Plan, the Plan Administrator shall distribute all Accounts, as determined by the Plan Administrator (i) in a lump sum to all Participants or (ii) in accordance with the method designated by Participants at the time of their deferrals.

## 14. ADMINISTRATIVE PROCEDURES AND DISPUTE RESOLUTION

### 14.1 PLAN ADMINISTRATOR

The Plan Administrator shall be the Company. The Board of Directors may establish an Administrative Committee composed of any persons, including officers or employees of the Company, who act on behalf of the Company in discharging the duties of the Company in administering the Plan. No Administrative Committee member who is a full-time officer or employee of the Company shall receive compensation with respect to his or her service on the Administrative Committee. Any member of the Administrative Committee may resign by delivering his or her written resignation to the Board of Directors of the Company. The Board may remove any Committee member by providing him or her with written notice of the removal.

### 14.2 COMMITTEE ORGANIZATION AND PROCEDURES

a. The President or the Secretary of the Company may designate a chairperson from the members of the Administrative Committee. The Administrative Committee may appoint its own secretary, who may or may not be a member of the Administrative Committee and may or may not be a person distinct from the Secretary of the Company. The Committee secretary shall have the primary responsibility for keeping a record of all meetings and acts of the Administrative Committee and shall have custody of all documents, the preservation of which shall be necessary or convenient to the efficient functioning of the Administrative Committee. All reports required by law may be signed by the Chairperson or another member of the Administrative Committee, as designated by the Chairperson, on behalf of the Company.

b. The Administrative Committee shall act by a majority of its members in office and may adopt such rules and regulations as it deems desirable for the conduct of its affairs. If the Company, the Plan, any Participant or Inactive Participant is or becomes subject to the Exchange Act, the Securities and Exchange Commission or any national or regional securities exchange, the Company and the members of the Administrative Committee shall take any actions which are necessary or desirable for the maintenance, modification or operation of the Plan in accordance with applicable rules thereunder.

### 14.3 ADMINISTRATIVE AUTHORITY

The Company and the Committee have discretionary authority to perform all functions necessary or appropriate to the operation of the Plan, including without limitation authority to (a) construe and interpret the provisions of the Plan document and any related instrument and determine any question arising under the Plan document or related instrument, or in connection with the administration or operation thereof; (b) determine in its sole discretion all facts and relevant considerations affecting the eligibility of any Employee to be or become a Participant; (c) decide eligibility for, and the amount of, benefits for any Participant, Inactive Participant or Beneficiary; (d) authorize and direct all investments and disbursements under the Plan; and (e) employ and engage such persons, counsel and agents and to obtain such administrative, clerical, medical, legal, audit and actuarial services as it may deem necessary in

carrying out the provisions of the Plan. The Company shall be the "administrator" as defined in Section 3(16)(A) of ERISA for purposes of the reporting and disclosure requirements of ERISA and the Code. The President of the Company, or in his or her absence, the Secretary of the Company shall be the agent for service of process on the Plan.

#### 14.4 EXPENSES

Reasonable expenses which are necessary to operate and administer the Plan, including but not limited to expenses incurred in connection with the provisions of Section 14.3 shall be paid directly by the Company. Such expenses may not be charged against Participant Accounts or reduce the amount of Compensation, investment earnings or interest accruals allocated to Participant Accounts under the Plan. All reasonable costs incurred by a Committee member in the discharge of the Company's or his or her duties under the Plan shall be paid or reimbursed by the Company. Such costs shall include fees or expenses arising from the Committee's retention, with the consent of the Company, of any attorneys, accountants, actuaries, consultants or recordkeepers required by the Committee to discharge its duties under the Plan. Nothing in the preceding two sentences or in any other provisions of the Plan shall require the Company to pay or reimburse any Committee member or any other person for any cost, liability, loss, fee or expense incurred by the Committee member or other person in any dispute with the Company; nor may any Committee member or other person reimburse himself, herself or itself, for any such cost, liability, loss, fee or expense, from any Plan contributions or from the principal or income of any investment or other vehicle established by the Company to assist it in meeting its obligations under the Plan.

#### 14.5 INSURANCE

The Company may, but need not, obtain liability insurance to protect its directors, officers, employees or representatives against liability in the operation of the Plan. An Employee, Participant or Inactive Participant may use his or her own funds to obtain any policy of insurance with respect to the Company's payment of any amounts under the Plan.

#### 14.6 CLAIMS PROCEDURE

a. A claim for benefits shall be considered filed only when actually received by the Plan Administrator.

b. Any time a claim for benefits is wholly or partially denied, the Participant, Inactive Participant or Beneficiary (hereinafter "Claimant") shall be given written notice of such denial within 90 days after the claim is filed, unless special circumstances require an extension of time for processing the claim. If there is an extension, the Claimant shall be notified of the extension and the reason for the extension within the initial 90-day period. The extension shall expire within 180 days after the claim is filed. Such notice will indicate the reason for denial, the pertinent provisions of the Plan on which the denial is based, an explanation of the claims appeal procedure set forth herein, and a description of any additional material or information

necessary to perfect the claim and an explanation of why such material or information is necessary.

#### 14.7 APPEAL PROCEDURES

a. Any person who has had a claim for benefits denied by the Plan Administrator, or is otherwise adversely affected by the action or inaction of the Plan Administrator, shall have the right to request review by the Plan Administrator. Such request must be in writing, and must be received by the Plan Administrator within 60 days after such person receives notice of the Plan Administrator's action. If written request for review is not made within such 60-day period, the Claimant shall forfeit his or her right to review. The Claimant or a duly authorized representative of the Claimant may review all pertinent documents and submit issues and comments in writing.

b. The Plan Administrator shall then review the claim. The Plan Administrator may issue a written decision reaffirming, modifying or setting aside its former action within 60 days after receipt of the written request for review, or 120 days if special circumstances require an extension. The Claimant shall be notified in writing of any such extension within 60 days following the request for review. An original or copy of the decision shall be furnished to the Claimant. The decision shall set forth the reasons and pertinent plan provisions or relevant laws on which the decision rests. The decision shall be final and binding upon the Claimant and the Plan Administrator and all other persons having or claiming to have an interest in the Plan or in any Account established under the Plan.

#### 14.8 ARBITRATION

a. Any Participant's, Inactive Participant's or Beneficiary's claim remaining unresolved after exhaustion of the procedures in Sections 14.6 and 14.7 (and to the extent permitted by law any dispute concerning any breach or claimed breach of duty regarding the Plan) shall be settled solely by binding arbitration at the Employer's principal place of business at the time of the arbitration, in accordance with the Employment Claims Rules of the American Arbitration Association. Judgment on any award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Each party to any dispute regarding the Plan shall pay the fees and costs of presenting his, her or its case in arbitration. All other costs of arbitration, including the costs of any transcript of the proceedings, administrative fees, and the arbitrator's fees shall be borne equally by the parties.

b. Except as otherwise specifically provided in this Plan, the provisions of this Section 14.8 shall be absolutely exclusive for any and all purposes and fully applicable to each and every dispute regarding the Plan including any claim which, if pursued through any state or federal court or administrative proceeding, would arise at law, in equity or pursuant to statutory, regulatory or common law rules, regardless of whether such claim would arise in contract, tort or under any other legal or equitable theory or basis. The arbitrator who hears or decides any claim under the Plan shall have jurisdiction and authority to award only compensatory damages to make whole a person or entity suffering foreseeable economic damages; and apart from such foreseeable economic damages, the arbitrator shall not have any authority or jurisdiction to make any award of any kind including, without limitation, punitive damages,

unforeseeable economic damages, damages for pain and suffering or emotional distress, adverse tax consequences or any other kind or form of damages. The remedy, if any, awarded by such arbitrator shall be the sole and exclusive remedy for each and every claim which is subject to arbitration pursuant to this Section 14.8. Any limitations on the relief that can be awarded by the arbitrator are in no way intended (i) to create rights or claims that can be asserted outside arbitration or (ii) in any other way to reduce the exclusivity of arbitration as the sole dispute resolution mechanism with respect to this Plan.

c. The Plan and the Company will be the necessary parties to any action or proceeding involving the Plan. No person employed by the Company, no Participant, Inactive Participant or Beneficiary or any other person having or claiming to have an interest in the Plan will be entitled to any notice or process, unless such person is a named party to the action or proceeding. In any arbitration proceeding all relevant statutes of limitation shall apply. Any final judgment or decision that may be entered in any such action or proceeding will be binding and conclusive on all persons having or claiming to have any interest in the Plan.

#### 14.9 NOTICES

Any notice from the Company or the Committee to an Employee, Participant, Inactive Participant or Beneficiary regarding this Plan may be addressed to the last known residence of said person as indicated in the records of the Company. Any notice to, or any service of process upon, the Company or the Committee with respect to this Plan may be addressed as follows:

Chief Financial Officer  
Callaway Golf Company  
2285 Rutherford Road  
Carlsbad, California 92008

#### 14.10 INDEMNIFICATION

To the extent permitted by law, the Company shall, and hereby does, indemnify and hold harmless any director, officer or employee of the Company or any Subsidiary who is or may be deemed to be responsible for the operation of the Plan, from and against any and all losses, claims, damages or liabilities (including attorneys' fees and amounts paid, with the approval of the Board, in settlement of any claim) arising out of or resulting from a duty, act, omission or decision with respect to the Plan, so long as such duty, act, omission or decision does not involve gross negligence or willful misconduct on the part of such director, officer or employee. Any individual so indemnified, shall, within 10 days after receipt of notice of any action, suit or proceeding, notify the President of the Company (or in the President's absence, the Chief Financial Officer of the Company) and offer in writing to the President (or Chief Financial Officer) the opportunity, at the Company's expense, to handle and defend such action, suit or proceeding, and the Company shall have the right, but not the obligation, to conduct the defense in any such action, suit or proceeding. An individual's failure to give the President (or Chief Financial Officer) such notice and opportunity shall relieve the Company of any liability to said individual under this Section 14.10. The Company may satisfy its obligations under this provision (in whole or in part) by the purchase of



insurance. Any payment by an insurance carrier to or on behalf of such individual shall, to the extent of such payment, discharge any obligation of the Company to the individual under this indemnification.

15. MISCELLANEOUS

15.1 ALTERNATIVE ACTS AND TIMES

If it becomes impossible or burdensome for the Company or the Committee to perform a specific act at a specific time required by this Plan, the Company or Committee may perform such alternative act which most nearly carries out the intent and purpose of this Plan and may perform such required or alternative act at a time as close as administratively feasible to the time specified in this Plan for such performance. Without limiting the foregoing, neither the Company nor the Committee shall accelerate or delay distributions, except as expressly permitted herein, such as upon termination of the Plan.

15.2 MASCULINE AND FEMININE, SINGULAR AND PLURAL

Whenever used herein, pronouns shall include both genders, and the singular shall include the plural, and the plural shall include the singular, whenever the context shall plainly so require.

15.3 GOVERNING LAW AND SEVERABILITY

This Plan shall be construed in accordance with the laws of the State of California (exclusive of its provisions regarding conflicts of law) to the extent that such laws are not preempted by ERISA or other federal laws. If any provision of this Plan shall be held illegal or invalid for any reason, such determination shall not affect the remaining provisions of this Plan which shall be construed as if said illegal or invalid provision had never been included.

15.4 FACILITY OF PAYMENT

If the Plan Administrator, in its sole discretion, determines that any Employee, Participant, Inactive Participant or Beneficiary by reason of infirmity, minority or other disability, is physically, mentally or legally incapable of giving a valid receipt for any payment due him or her or is incapable of handling his or her own affairs and if the Plan Administrator is not aware of any legal representative appointed on his or her behalf, then the Plan Administrator, in its sole discretion, may direct (a) payment to or for the benefit of the Employee, Participant, Inactive Participant or Beneficiary; (b) payment to any person or institution maintaining custody of the Employee, Participant, Inactive Participant or Beneficiary; or (c) payment to any other person selected by the Plan Administrator to receive, manage and disburse such payment for the benefit of the Employee, Participant, Inactive Participant or Beneficiary. The receipt by any such person of any such payment shall be a complete acquittance therefor; and any such payment, to the extent thereof, shall discharge the liability of the Company, the Committee, and the Plan for any amounts owed to the Employee, Participant, Inactive Participant or Beneficiary hereunder. In the event of any controversy or uncertainty regarding who should receive or whom the Plan Administrator should select to receive

any payment under this Plan, the Plan Administrator may seek instruction from a court of proper jurisdiction or may place the payment (or entire Account) into such court with final distribution to be determined by such court.

#### 15.5 CORRECTION OF ERRORS

Any crediting of Compensation or interest accruals to the Account of any Employee, Participant, Inactive Participant or Beneficiary under a mistake of fact or law shall be returned to the Company. If an Employee, Participant, Inactive Participant or Beneficiary in an application for a benefit or in response to any request by the Company or the Plan Administrator for information, makes any erroneous statement, omits any material fact, or fails to correct any information previously furnished incorrectly to the Company or the Plan Administrator, or if the Plan Administrator makes an error in determining the amount payable to an Employee, Participant, Inactive Participant or Beneficiary, the Company or the Plan Administrator may correct its error and adjust any payment on the basis of correct facts. The amount of any overpayment or underpayment may be deducted from or added to the next succeeding payments, as directed by the Plan Administrator. The Plan Administrator and the Company reserve the right to maintain any action, suit or proceeding to recover any amounts improperly or incorrectly paid to any person under the Plan or in settlement of a claim or satisfaction of a judgment involving the Plan.

#### 15.6 MISSING PERSONS

In the event a distribution of part or all of an Account is required to be made from the Plan to an Employee, Participant, Inactive Participant or Beneficiary, and such person cannot be located, the relevant portion of the Account shall escheat in accordance with the laws of the State of California. If the affected Employee, Participant, Inactive Participant or Beneficiary later contacts the Company, his or her portion of the Account shall be reinstated and distributed as soon as administratively feasible. The Company shall reinstate the amount forfeited by reclaiming such amount from the State of California, and allocating it to the Account of the affected Employee, Participant, Inactive Participant or Beneficiary. Prior to forfeiting any Account, the Company shall attempt to contact the Employee, Participant, Inactive Participant or Beneficiary by return receipt mail (or other carrier) at his or her last known address according to the Company's records, and, where practical, by letter-forwarding services offered through the Internal Revenue Service, or the Social Security Administration, or such other means as the Plan Administrator deems appropriate.

#### 15.7 EMPLOYEE ACKNOWLEDGMENT

By executing this Plan document or related enrollment or election form, the undersigned Employee hereby acknowledges that Employee has read and understood this Plan document. Employee also acknowledges that Employee knowingly and voluntarily agrees to be bound by the provisions of the Plan, as amended from time to time, including those Plan provisions which require the resolution of disputes by binding out-of-court arbitration. Employee further acknowledges that Employee has had the opportunity to consult with counsel of Employee's own choosing with respect to all of the financial, tax and legal consequences of participating in this Plan, including in particular the effects of participation on any community property or other interest which

the Employee and his or her spouse, if any, may have in the Compensation deferred and any amounts allocated to the Employee's Account under the Plan.

15.8 OUTSIDE DIRECTOR ACKNOWLEDGMENT

By participating in this Plan, any outside director agrees to be bound by the terms of the Plan, as it may be maintained or amended by Callaway Golf in its sole discretion at any time and from time to time, including the dispute resolution and mandatory arbitration procedures of Section 14 of the Plan. Additionally, each outside director acknowledges and agrees that nothing in his or her participation in the Plan and nothing in the documentation, maintenance, administration, modification or termination of the Plan renders or can render the outside director an employee for purposes of the Employee Retirement Income Security Act or other federal, state or local laws.

IN WITNESS WHEREOF, the undersigned has executed this document as of August 22, 2000.

CALLAWAY GOLF COMPANY

/S/ CHARLES J. YASH

-----  
Charles J. Yash  
President



THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CALLAWAY GOLF COMPANY UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEET AND UNAUDITED CONSOLIDATED CONDENSED STATEMENT OF INCOME AT SEPTEMBER 30, 2000 AND FOR THE NINE MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS	DEC-31-2000	JAN-01-2000	SEP-30-2000
			121,625
			0
		103,089	
		5,881	
		109,919	
	362,899		
		245,954	
	109,956		
	655,741		
125,483			0
	0		0
		0	783
		518,444	
519,227			704,788
	704,788		
		364,783	
	364,783		
	0		
	4,350		
	1,100		
	132,563		
	52,059		
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	80,504		
	1.14		
	1.12		

NOT STATED IN MULTIPLES OF 1,000  
 NOT STATED IN MULTIPLES OF 1,000

Exhibit 99.1

Contact: Ely Callaway  
Larry Dorman  
760-931-1771

ELY CALLAWAY TO REMAIN AS CALLAWAY GOLF CEO AND PRESIDENT  
AS THE COMPANY FOCUSES TOP MANAGEMENT  
ON GROWING THE GAME OF GOLF

CARLSBAD, CA, November 13, 2000 - Callaway Golf Company (NYSE:ELY) announced today that Founder, Chairman and CEO Ely Callaway will remain indefinitely in his current leadership role with the Company. The Callaway Golf Board of Directors has asked Mr. Callaway to continue as Chairman of the Board and CEO while also taking on the title and duties of President, and Mr. Callaway has agreed.

"I am invigorated by the Company's new opportunities, direction and new policy of growing the company specifically and growing the game of golf generally by offering golfers a choice between drivers that do conform with USGA regulations and drivers that do not conform," Mr. Callaway said. "I think this is the most exciting time for me in golf since the introduction of the original Big Bertha Driver in 1991, and because of this I look forward to continuing to lead the company toward capitalizing on its new and exceptional opportunities."

Mr. Callaway said that he and the Board have requested that Chuck Yash immediately begin devoting his full time and attention to leading a team of top people to implement Callaway Golf's new policy. Mr. Yash will assume the new role of Vice Chairman of the Board and Senior Executive Vice President in charge of directing the company's efforts to "Grow the Game." Mr. Yash will report directly to Ely Callaway.

"With Chuck's knowledge of and vision for the game, his established reputation in the industry, and great leadership skills, we hope to be a strong force working to change attitudes - including attitudes on equipment - that might act as barriers to the growth of the game of golf in the United States," Mr. Callaway said. "In order to give Chuck the time to devote to this unusual and important task, I will again assume the title of President of the Company and will continue as CEO."

This new Callaway Golf task force, whose primary purpose will be to focus upon ways to encourage the growth of the game, will report directly to Chuck Yash in his new position. That group is in the process of being formed by Mr. Yash from people both inside and outside the Company.

Mr. Callaway also announced the formation of a newly constituted Senior Management Committee, composed of top officers of the company, which will assist him in guiding and operating the company in the days ahead. This group will report directly to Mr. Callaway. In addition to Mr. Yash, those included in the committee are: Ron

Drapeau, Senior Executive Vice President, Manufacturing; Richard Helmstetter, Senior Executive Vice President, R&D; Steve McCracken, Senior Executive Vice President and Chief Legal Officer; Brad Holiday, Executive Vice President and Chief Financial Officer; Mick McCormick, Executive Vice President, Global Sales; and Ian Rowden, Executive Vice President, Global Advertising. Said Mr. Callaway, "Having consolidated our golf ball business into the management structure of our overall global golf club business three months ago, the Directors and I believe that in this group we have assembled a very strong, talented and capable senior management team that can take full advantage of the Company's unusual opportunities."

Mr. Callaway said that the company's new policy and the consequent need for the new task force grew in large part out of the USGA's decision in 1998 to break ranks with the Royal and Ancient Golf Club of St. Andrews, Scotland (R&A) and to institute its own rule limiting the C.O.R. ("coefficient of restitution") on drivers. The R&A, which originates and oversees the rules of golf in all countries outside the United States, Canada and Mexico, continued its own study of whether modern drivers hit the ball too far, and whether they pose a threat to the integrity of the game. In early Fall of 2000, the R&A announced its conclusion that modern drivers do not pose a threat to the integrity of the game and are therefore approved for play for all golfers, in tournaments as well as recreational play, in some of the major areas where golf has long been played - such as Great Britain, Europe, South Africa, South America, Japan and Asia.

In light of the USGA's action, Callaway Golf continues to offer in the U.S. a large and complete line of equipment that conforms to USGA rules. However, the Company agrees with the R&A that recreational golfers should be allowed to take advantage of the latest in golf club technology without threatening the integrity of the game. In the Company's opinion, the USGA rules would needlessly deprive recreational golfers in the U.S. the opportunity to use drivers that could make the game more enjoyable. On October 18, 2000 the company announced at a global news conference that it was adding a new line of drivers - the "non-conforming" Big Bertha-Registered Trademark- ERC-TM- II Forged Titanium Drivers - for sale in the United States and around the world.

Each of the Company's new drivers will be permanently marked on the clubhead as follows: the new conforming Hawk Eye VFT Driver carries the inscription "CONFORMS WITH USGA RULES, APP. II, 5a"; the new non-conforming ERC II Driver carries the inscription "NON-CONFORMING WITH USGA RULES, APP. II, 5a." Each new driver also has a face sticker clearly identifying it as it either "Conforming" or "Non-Conforming".

The new ERC II Drivers do not conform to the USGA's Rules because they exceed the USGA's limits on a driver's C.O.R. - a measure of the efficiency with which a club transfers the energy generated by a golfer's swing to a golf ball. These non-conforming drivers are intended for use by U.S. golfers who play recreational golf for fun. Callaway does not intend or recommend that the ERC II be used in tournament play or any other competition governed by USGA Rules.

"We feel our innovative step in introducing a superior driver for use by recreational golfers in the United States will help the game of golf to grow," Mr. Callaway said. "Golf is probably the most difficult game ever devised. Many people quit the game entirely after periods of struggle. We think that millions of Americans want to play the game of golf for fun and relaxation with friends and family, and do not see themselves as necessarily playing at the same competitive level as professionals or top amateurs. We are confident that a driver like our new ERC II will add to their enjoyment of the game without threatening the fundamental nature of the game.

"Over time, helping to make golf more enjoyable and friendly should attract more beginners to the game and help keep people playing the game longer," Mr. Callaway continued. "Much of our business in the future, and much of the business for everyone else associated with the game of golf in the future, will depend upon successful efforts such as this one intended to grow the game."

The Company's other products, including its new Big Bertha Hawk Eye-Registered Trademark- VFT-TM- Titanium Drivers and Fairway Woods do conform to USGA Rules and are offered for use in rounds played in the U.S. in tournaments or other events subject to the USGA's Rules.

"With our core line of USGA-conforming woods and irons, we hope to provide the highest level of performance and enjoyment ever for those skilled at the game and competing at tournament levels," Mr. Callaway said. "For recreational golfers, we think the ERC II Driver offers a better chance to hit their drives a little farther and with somewhat better control of accuracy than they can with any other driver our company has ever offered. We believe, as do many others, that this will be very good for the game of golf and, of course, good for our Company."

CALLAWAY GOLF COMPANY MAKES AND SELLS BIG BERTHA-Registered Trademark- Metal Woods and Irons, including Big Bertha ERC-TM- II Forged TITANIUM DRIVERS, BIG BERTHA HAWK EYE-Registered Trademark- VFT-TM- Titanium Drivers and Fairway Woods, Great Big Bertha-Registered Trademark- Hawk Eye TITANIUM DRIVERS AND FAIRWAY WOODS, BIG BERTHA STEELHEAD PLUS-TM- Stainless Steel Drivers and Fairway Woods, Hawk EYE TUNGSTEN INJECTED-TM- Titanium Irons, Steelhead-TM- X-14-Registered Trademark- and Steelhead X-14 Pro Series Stainless Steel Irons, and BOBBY JONES-Registered Trademark- and Carlsbad Series-TM- Putters. Callaway Golf Company also makes and sells Odyssey-Registered Trademark- Putters, INCLUDING WHITE HOT-TM-, TriHot-TM-, and Dual Force-Registered Trademark- Putters. Callaway Golf Ball Company, a wholly-owned subsidiary of CALLAWAY GOLF COMPANY, MAKES AND SELLS THE CALLAWAY GOLF-Registered Trademark- Rule 35-TM- Firmfeel-TM- and Softfeel-TM- golf balls.

FOR MORE INFORMATION ABOUT CALLAWAY GOLF COMPANY, PLEASE VISIT OUR WEB SITES AT [WWW.CALLAWAYGOLF.COM](http://WWW.CALLAWAYGOLF.COM), [WWW.CALLAWAYGOLFBALL.COM](http://WWW.CALLAWAYGOLFBALL.COM) AND [WWW.ODYSSEYGOLF.COM](http://WWW.ODYSSEYGOLF.COM).