UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2002
Commission file number 1-10962

Callaway Golf Company

(Exact name of registrant as specified in its charter)

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

2180 Rutherford Road

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

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

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

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

None

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

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

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

As of June 28, 2002, the aggregate market value of the Registrant's Common Stock held by nonaffiliates of the Registrant was $1,042,132,671 based on the closing sales price of the Registrant's Common Stock as reported on the New York Stock Exchange. Such amount was calculated by excluding all shares held by directors and executive officers and the Company's grantor stock trust without conceding that any of the excluded parties are "affiliates" of the Registrant for purposes of the federal securities laws.

As of February 28, 2003, the number of shares of the Registrant's Common Stock outstanding was 75,528,649, and there were no shares of the Registrant's Preferred Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts I and III incorporate certain information by reference from the Registrant's Definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the Registrant's 2003 Annual Meeting of Shareholders, which is scheduled to be held on June 10, 2003. Such Definitive Proxy Statement will be filed with the Commission not later than 120 days after the conclusion of the Registrant's fiscal year ended December 31, 2002.

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Important Notice to Investors: *Statements made in this report that relate to future plans, events, liquidity, 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. For details concerning these and other risks and uncertainties, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain Factors Affecting Callaway Golf Company," as well as the Company's other reports on Forms 10-K, 10-Q and 8-K subsequently filed with the Securities and Exchange Commission from time to time. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Investors should also be aware that while the Company from time to time does communicate with securities analysts, it is against the Company's policy to disclose to them any material non-public information or other confidential commercial information. Furthermore, the Company has a policy against issuing or confirming financial forecasts or projections issued by analysts and any reports issued by such analysts are not the responsibility of the Company. Investors should not assume that the Company agrees with any report issued by any analyst or with any statements, projections, forecasts or opinions contained in any such report.*

Callaway Golf Company Trademarks: *The following marks and phrases, among others, are trademarks of Callaway Golf Company: Big Bertha — Big Bertha C4 — Biggest Big Bertha — C4 design — C design — CB1 — CTU 30 — Callaway — Callaway Golf — Callaway Hickory Stick — Chevron Device — Dawn Patrol — Daytripper — Demonstrably Superior and Pleasingly Different — Deuce — DFX — Divine Nine — Dual Force — Ely Would — Enjoy the Game — ERC — ERC II — Ginty — Great Big Bertha — Great Big Bertha II — HX — Hawk Eye — Heavenwood — Little Bertha — Odyssey — RCH — Rossie — Rule 35 — S2H2 — Steelhead — Steelhead Plus — Stronomic — TriForce — TriHot — Tru Bore — Tubular Lattice Network — Tungsten Injected — VFT — Warbird — White Hot — World's Friendliest — X-12 — X-14 — X-16 — X-SPANN*

CALLAWAY GOLF COMPANY

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PART I

Item 1. *Business*

Callaway Golf Company (the “Company” or “Callaway Golf”) was incorporated in California in 1982 and reincorporated in Delaware on July 1, 1999. The Company has the following direct wholly-owned operating subsidiaries: Callaway Golf Sales Company, Callaway Golf Europe Ltd., Callaway Golf K.K., Callaway Golf Korea Ltd., Callaway Golf Canada Ltd. and Callaway Golf South Pacific PTY Ltd. During 2000, the Company consolidated its golf ball and golf club operations, and in connection with such consolidation, it merged its wholly-owned subsidiary, Callaway Golf Ball Company, into the Company.

The Company, together with its subsidiaries, designs, manufactures and sells high quality, innovative golf clubs (drivers, fairway woods, irons, wedges and putters) and golf balls. The Company also sells golf accessories such as golf bags, golf gloves, golf headwear, travel covers and bags, golf towels and golf umbrellas. The Company generally sells its products to golf retailers, directly and through its wholly-owned subsidiaries, and to third party distributors. The Company’s products are sold in the United States and in over 100 countries around the world. The Company’s products are designed for the enjoyment of both amateur and professional golfers. Golfers generally purchase the Company’s products on the basis of performance, ease of use and appearance. In addition, the Company licenses its trademarks and service marks in exchange for a royalty fee to third parties for use on products such as golf apparel, golf shoes and other golf related products, such as headwear, travel bags, golf towels and umbrellas.

Golf Ball Company

In 1996, the Company formed Callaway Golf Ball Company for the purpose of designing, manufacturing and selling golf balls. In February 2000, Callaway Golf Ball Company released its first golf ball product, the Rule 35 golf ball. During 2000, the Company’s golf ball operations had net sales of approximately $34.0 million and a loss before income taxes of approximately $45.9 million. This loss was greater than the Company had anticipated. On December 29, 2000, Callaway Golf Ball Company was merged into Callaway Golf Company. During 2001, the Company released its CB1 and CTU 30 golf balls and continued to improve production efficiencies. As a result, in 2001, the Company’s golf ball operations improved with net sales of approximately $54.9 million and a loss before income taxes of approximately $17.9 million. During 2002, the Company released three additional golf ball models with the introduction of the HX, HX 2-Piece and Warbird golf balls. Golf ball net sales for 2002 increased 20% to $66.0 million compared to the $54.9 million generated in 2001. Gross profit margins were flat compared to 2001 and would have experienced some improvement excluding a charge to purchase previously leased manufacturing equipment. As a result of the expanded product line in 2002, and with a reduction in pricing that was implemented in August of 2002, the golf ball operations have experienced an increase in market share. The Company’s competitors, however, have been aggressive in defending their market shares. This has resulted in significant expenses for the Company in both tour and advertising. These expenses, together with the price decreases and the charge associated with the acquisition of the manufacturing equipment, contributed to the $25.6 million operating loss for 2002 versus a loss of $17.9 million in 2001. To date, 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 unless the Company’s golf ball operations improve, the Company’s cash flows, financial position and results of operations will continue to be negatively affected. The Company is evaluating all available actions to reduce and eliminate the losses in its golf ball business. Some of these actions could result in a write-down of a significant portion of the assets used in the Company’s golf ball operations. For additional risks related to the Company’s golf ball operations, see below, “Certain Factors Affecting Callaway Golf Company.”

Financial Information about Segments and Geographic Areas

Information regarding the Company’s segments and geographic areas in which the Company operates is contained in Note 13 to the Consolidated Financial Statements (“Consolidated Financial Statements”) for the year ended December 31, 2002, which note is incorporated herein by this reference and is included as part of “Item 8. Financial Statements and Supplementary Data” to this Form 10-K.

Products

The Company designs, manufactures and sells premium golf clubs and golf balls and also sells related accessories. The Company designs its products to be technologically-advanced and in this regard invests a considerable amount in research and development each year. The Company's credo is to develop products that are "demonstrably superior and pleasingly different." The Company's products are designed for golfers of all skill levels, both amateur and professional.

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

	Year Ended December 31,					
	2002		2001		2000	
	(In millions)					
Drivers and fairway woods	$310.0	39%	$392.9	48%	$403.0	48%
Irons	243.5	31%	248.9	30%	299.9	36%
Putters	111.5	14%	67.5	8%	55.2	7%
Golf balls	66.0	8%	54.9	7%	34.0	4%
Accessories and other	61.1	8%	52.0	7%	45.5	5%
Net sales	$792.1	100%	$816.2	100%	$837.6	100%

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

Drivers and Fairway Woods. As shown in the table above, the Company's drivers and fairway woods have historically been the product group that has produced the greatest amount of sales for the Company. The Company's principal models of drivers and fairway woods to be sold in 2003 are as follows:

- *Great Big Bertha II Titanium Drivers and Fairway Woods.* Great Big Bertha II Titanium Drivers (including both standard and pro series versions) and Fairway Woods are the Company's primary titanium metal woods for 2003. The drivers were introduced in late 2002 and the fairway woods were introduced in early 2003 and both are sold at a premium price. The Great Big Bertha II Titanium Drivers conform to the Rules of Golf as published by the United States Golf Association ("USGA"), which stipulate a 0.830 limitation on Coefficient of Restitution ("COR") in drivers. The Company also offers a higher COR driver intended for use in countries where there are no limitations on COR through 2007 as stipulated by the Rules of Golf set by the Royal & Ancient Golf Club of St. Andrews ("R&A"). This unrestricted version is designated as the Great Big Bertha II+ Titanium Driver and is widely available in international markets while offered on a limited basis in the United States. For further information regarding the Rules of Golf see below, "Certain Factors Affecting Callaway Golf Company — Conformance with the Rules of Golf" and "USGA Action."

- *Big Bertha Steelhead III Drivers and Fairway Woods.* Big Bertha Steelhead III Drivers and Fairway Woods are the Company's primary stainless steel woods for 2003. The Company first began delivery of significant quantities of this product in early 2002. They were designed to replace the Company's Big Bertha Steelhead Plus Stainless Steel Drivers and Fairway Woods which were sold during 2000 and 2001. While still premium priced for their category, these are the lowest priced woods in the Company's current product line. Big Bertha Steelhead III Drivers and Fairway Woods conform to the Rules of Golf everywhere in the world, and are being offered for sale in all markets.

The Company's drivers and fairway woods are available in a variety of lofts, shafts and other specifications to accommodate the preferences and skill levels of all golfers.

Irons. As shown in the table above, the Company's irons have historically generated a significant percentage of the Company's overall sales. All of the Company's iron models conform with the Rules of Golf as published everywhere in the world. The Company's principal iron models to be sold in 2003 are as follows:

- *Hawk Eye VFT Tungsten Injected Titanium Irons.* Hawk Eye VFT Tungsten Injected Titanium Irons are the Company's primary titanium irons for 2003, and are the Company's highest priced irons. They incorporate a large hitting area, a low center of gravity, variable face thickness and are made of cast titanium with a proprietary "tungsten weight matrix" to improve performance. They were sold in 2002 and the latter part of 2001 as well.

- *Steelhead X-16 Stainless Steel Irons.* Steelhead X-16 Stainless Steel Irons, including the Steelhead X-16 Pro Series line, are the Company's newest irons, introduced in January 2003. The Steelhead X-16 Stainless Steel Irons utilize a proprietary "notch" weighting design which pushes more weight out to the heel and toe areas of the clubhead to improve forgiveness on off-center hits. They are made of cast stainless steel and are priced at a premium level for irons made from this material.

- *Big Bertha Irons.* Big Bertha Irons, like the Steelhead X-16 Stainless Steel Irons, are made of cast stainless steel. The Company first began delivery of significant quantities of these irons in 2002. While they are a premium priced stainless steel iron, they are priced slightly below the Steelhead X-16 Stainless Steel Irons. They incorporate a unique design with a wide constant width sole that maximizes performance for most golfers.

The Company's irons are available in a variety of lofts, shafts and other specifications to accommodate the preferences and skill levels of all golfers.

Putters. As shown in the table above, sales of the Company's putters have experienced significant growth and now account for 14% of the Company's overall sales. The Company primarily sells Odyssey branded putters, including the TriHot, White Hot and Dual Force Putters. The putters sold in 2003 will include putters that were not sold in 2002, including the White Hot 2-Ball Center-Shafted Putter and a new line of DFX Putters. According to Golf Datatech, sales of Odyssey putters in 2002 accounted for almost 50% of all revenue generated from putters sold in the United States. The Company's putters are available in a variety of styles and shafts to accommodate the preferences and skill levels of all golfers.

Golf Balls. The Company began selling golf balls in 2000 when it released its Rule 35 golf balls. All of the Company's golf ball lines are offered in a "Red" ("more distance") and a "Blue" ("more spin") version with the exception of the Warbird golf ball line. The Company's principal golf ball models to be sold in 2003 are as follows:

- *HX Golf Balls.* HX Golf Balls are three-piece golf balls that incorporate a solid core, an ionomer boundary layer, and a very thin, cast, thermoset urethane cover. The surface geometry of the cover incorporates a unique Tubular Lattice Network (i.e., a series of hexagons and pentagons separated by tubular ridges) rather than a traditional dimple design. The Company first began delivery of significant quantities of these golf balls in 2002. HX Golf Balls are the Company's highest priced golf balls.

- *CTU 30 Golf Balls.* CTU 30 Golf Balls are also three-piece golf balls incorporating a solid core, an ionomer boundary layer, and a very thin, cast, thermoset urethane cover. Unlike the HX Golf Balls, the CTU 30 Golf Balls incorporate a traditional dimple pattern. The CTU 30 Golf Balls were designed to replace the Rule 35 Golf Balls, which they did in late 2001. CTU 30 Golf Balls are sold at a premium price that is below that for the HX Golf Balls, but above that for the Company's two-piece golf ball product lines which include the HX 2-Piece, CB1 and Warbird golf ball lines.

- *HX 2-Piece Golf Balls.* HX 2-Piece Golf Balls are two-piece golf balls that incorporate a solid core and an ionomer cover. Similar to the HX Golf Balls discussed above, the surface geometry of the cover incorporates a unique Tubular Lattice Network rather than a traditional dimple design. These golf balls were introduced in mid- 2002. HX 2-Piece Golf Balls are the Company's highest priced two-piece golf balls.

- *CB1 Golf Balls.* CB1 Golf Balls are also two-piece golf balls that incorporate a solid core and an ionomer cover. CB1 Golf Balls incorporate a traditional dimple pattern. These golf balls were introduced in 2001.

- *Warbird Golf Balls.* Warbird Golf Balls are two-piece golf balls that incorporate a solid core and an ionomer cover. The ionomer cover incorporates a traditional dimple pattern like that of the CB1 Golf Balls. However, the thickness of the cover exceeds that of the CB1 Golf Balls providing increased durability. In addition, the Warbird Golf Balls have the highest core compression of any of the golf balls in the Company's golf ball product line. These golf balls were introduced in the third quarter of 2002 and represent the Company's lowest priced golf ball which is focused on the value segment of the golf ball market.

Accessories and Other. As shown in the table above, the Accessories and Other product group makes a significant contribution to the Company's overall sales. Most of the sales from this product group are from sales of wedges and accessories, including golf bags.

- *Wedges.* In mid-2002, the Company introduced Callaway Golf Forged Wedges. Each Callaway Golf Forged Wedge is forged from 1020 carbon steel, is offered in two distinct finishes, Chrome or Vintage, and is available in a variety of lofts.

- *Accessories.* The Company also sells golf-related accessories such as golf bags, golf gloves, golf headwear, travel covers and bags, golf towels and golf umbrellas.

All of the Company's golf clubs and golf balls described above are believed to conform to the Rules of Golf as published by the USGA and the R&A, except for the Company's Great Big Bertha II+ Titanium Drivers. This product does not conform to the Rules of Golf as published by the USGA because it exceeds the 0.830 COR limitation adopted by the USGA. Great Big Bertha II+ Titanium Drivers are intended for use in countries where there are no limitations on COR through 2007 as stipulated by the Rules of Golf set by the R&A. The Company offers the Great Big Bertha II+ Titanium Drivers to consumers in the United States on a limited basis. For further discussion of the Company's conformance with the Rules of Golf, see below, "Certain Factors Affecting Callaway Golf Company — Conformance with the Rules of Golf" and "USGA Action."

Product Design and Development

Product design at Callaway Golf is a result of the integrated efforts of its product management, research and development, manufacturing and sales departments, all of which work together to generate new ideas for golf equipment. The Company has not limited itself in its research efforts by trying to duplicate designs that are traditional or conventional and believes it has created an environment in which new ideas are valued and explored. In 2002, 2001 and 2000, the Company expended on research and development \$32.2 million, \$32.7 million and \$34.6 million, respectively. The Company intends to continue to invest substantial amounts in its research and development activities in 2003 and beyond in connection with its development of new golf club and golf ball products.

Callaway Golf has the ability to create and modify golf club designs by using computer aided design ("CAD") software, computer aided manufacturing ("CAM") software and computer numerical control ("CNC") milling equipment. CAD software enables designers to develop computer models of new clubhead and shaft designs. CAM software is then used by engineers to translate the digital output from CAD computer models so that physical prototypes can be produced. Through the use of this technology, Callaway Golf has been able to accelerate the design, development and testing of new golf clubs. In addition, the Company's sophisticated CAD/CAM design, tooling, ball prototyping and indoor testing equipment, together with the Company's predictive computer modeling capability, allows it to develop and test prototype golf balls in a relatively short cycle time. Additionally, the Company utilizes a variety of testing equipment and computer software, including an "Iron Byron" robot, launch monitors, a proprietary virtual test center, a proprietary performance analysis system, an indoor test range and other destructive and non-destructive methods.

Sales and Marketing

Sales in the United States

Approximately 55%, 54% and 54% of the Company's net sales were derived from sales for distribution within the United States in 2002, 2001 and 2000, respectively. The Company targets both on- and off-course golf retailers who sell professional quality golf products and provide a level of customer service appropriate for the sale of such products. No one customer that distributes golf clubs or balls in the United States accounted for more than 4% of the Company's revenues in 2002, 2001 or 2000.

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

In addition, the sales representatives call on corporate customers who want their corporate logo placed on the Company's golf balls, putters or golf bags. The Company imprints the logos on its golf balls, putters and golf bags in the same facility in which it manufactures them, thereby retaining control over the quality of the process and final product. The Company also pays an agency fee to certain on- and off-course professionals and retailers with whom it has a relationship for corporate sales that originate through such professionals and retailers.

The Company also has a separate team of manufacturing and customer service representatives that focus on the Company's custom club sales. Custom club sales are generated primarily from a club fitting experience designed by the Company for golfers of all abilities. These club fitting experiences produce the golfer's custom specifications that facilitate the selection of Callaway Golf club model, loft, shaft type, flex, length, lie, and grip size. Club fittings are performed by golf professionals that are specifically trained to utilize the Company's proprietary club fitting software. The Company believes that offering golfers the opportunity to gain knowledge of custom club specifications increases sales and promotes brand loyalty.

The Company maintains various sales programs from time to time including a Preferred Retailer Program which offers longer payment terms, as well as potential rebates and discounts, for retailers who participate in the program in exchange for providing certain benefits to the Company, including the maintenance of agreed upon inventory levels, prime product placement and retailer staff training.

Sales Outside of the United States

Approximately 45%, 46% and 46% of the Company's net sales were derived from sales for distribution outside of the United States in 2002, 2001 and 2000, respectively. The Company does business (either directly or through its subsidiaries and distributors) in more than 100 countries around the world. The Company's management believes that controlling the distribution of its products in certain major markets in the world has been and will be an element in the future growth and success of the Company. The majority of the Company's international sales were made through its foreign subsidiaries and the remainder through third party distributors.

The Company sells its products throughout Europe through its subsidiary Callaway Golf Europe Ltd. The Company sells its products in Japan through its subsidiary Callaway Golf K.K. The Company sells its products in Korea through its subsidiary Callaway Golf Korea Ltd. The Company sells its products in Canada through its subsidiary, Callaway Golf Canada Ltd. The Company sells its products in Australia and New Zealand through its subsidiary Callaway Golf South Pacific PTY Ltd.

In addition to sales through its subsidiaries, the Company also has third party distribution arrangements covering sales of the Company's products in 65 foreign countries, including Singapore, Hong Kong, Taiwan, China, the Philippines, South Africa and various countries in South America. Prices of golf clubs and balls for sales by distributors outside of the United States generally reflect an export pricing discount to compensate international distributors for selling and distribution costs. A change in the Company’s relationship with significant distributors could negatively impact the volume of the Company’s international sales.

The Company’s sales programs in its international markets are specifically tailored for each local market. Some of the sales programs utilized in the local markets include the custom club fitting experiences and the Preferred Retailer Program or variations of it employed in the United States as described above.

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

Advertising and Promotion

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

In addition, the Company establishes relationships with professional golfers in order to promote the Company’s products. The Company has entered into endorsement arrangements with members of the various professional tours to promote the Company’s golf club and ball products. For certain risks associated with such endorsements, see below, “Certain Factors Affecting Callaway Golf Company — Golf Professional Endorsements.”

Competition

The golf club markets in which the Company does business are highly competitive, and are served by a number of well-established and well-financed companies with recognized brand names, as well as new companies with popular products. For example, in 2002, Nike began marketing and selling golf clubs that compete with the Company’s products, and several manufacturers in Japan have announced plans to expand their businesses in the United States. With respect to metal woods and irons, the Company’s major domestic competitors are Taylor Made, Titleist, Cobra, Cleveland and Ping. For putters, the Company’s major domestic competitors are Ping and Titleist. The Company believes that it is the leader, or one of the leaders, in every golf club market in which it competes.

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 Titleist, Nike, Spalding, Sumitomo Rubber Industries (Srixon), Bridgestone (Precept), MaxFli (now Taylor Made) and others. These competitors have established market share in the golf ball business, with Titleist having an estimated market share in excess of 50% of the premium golf ball business in the United States.

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

Handling of Materials

In the ordinary course of its manufacturing process, the Company uses paints and chemical solvents which are stored on-site. The waste created by use of these materials is transported off-site on a regular basis by registered waste haulers. As a standard procedure, a comprehensive audit of the treatment, storage, and disposal facility with which the Company contracts for the disposal of hazardous waste is performed annually by the Company. To date, the Company has not experienced any material environmental compliance problems, although there can be no assurance that such problems will not arise in the future.

Intellectual Property

The Company is the owner of over 1,900 U.S. and foreign trademark registrations and over 600 U.S. and foreign patents relating to the Company's products, product designs, manufacturing processes and research and development concepts. Other patent and trademark applications are pending and await registration. In addition, the Company owns various other protectable rights under copyright, trade dress, and other statutory and common laws. The Company's intellectual property rights are very important to the Company and the Company seeks to protect such rights through the registration of trademarks and utility and design patents, the maintenance of trade secrets and the creation of trade dress. When necessary and appropriate, the Company enforces it rights through litigation against those who are infringing the Company's rights.

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

Licensing

In support of its golf club, golf ball and accessories businesses, the Company endeavors to enhance the value of the Callaway Golf brand and its other trademarks and service marks through the licensing of such marks in exchange for a royalty fee. The Company's licensing activities not only provide royalties but also are a valuable source of advertising and goodwill.

In 2001, the Company and Nordstrom, Inc. mutually terminated their prior licensing arrangement, which included men's and women's golf apparel, men's footwear and sun and skin care products. Also in 2001, the Company entered into an exclusive licensing arrangement with Ashworth, Inc. for the creation of a complete line of men's and women's apparel for distribution in the United States, Canada, Europe, Australia, New Zealand and South Africa. In addition, the Company also entered into a long-term licensing agreement with Sanei International Co., Ltd. to create and sell Callaway Golf apparel in Japan. The Company's golf apparel products were available at retail beginning in 2002. The first full year for which the Company will receive royalty revenue under these licensing arrangements is 2003.

In 2002, the Company extended its apparel licensing arrangement within the Asian markets by entering into another long-term licensing agreement with Sanei International Co., Ltd. to create and sell Callaway Golf apparel in South Korea beginning in 2003. Also in 2002, the Company entered into an exclusive licensing arrangement with Tour Golf Group, Inc. for the creation of a golf footwear collection for initial distribution in the United States and Canada beginning in March 2003 and entered into an exclusive licensing arrangement with TRG Accessories, LLC for the creation of a collection consisting of luggage, personal leather products and skin protection products for distribution in the United States, Canada, Europe and Asia beginning in late 2003.

Employees

As of December 31, 2002, the Company and its subsidiaries had approximately 2,300 full-time employees, including approximately 625 employed in sales and marketing, approximately 150 employed in research and development and product engineering and approximately 1,200 employed in production. The remaining full-time employees are administrative and support staff.

The Company considers its employee relations to be good. None of the Company's employees are represented by unions. The Company's commitment to the development of new products and the seasonal nature of its business may result in fluctuations in production levels. The Company attempts to manage these fluctuations to maintain employee morale and avoid disruption. However, it is possible that such fluctuations could strain employee relations in the future.

Access to SEC Filings through Company Website

Interested readers can access the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, through the Investor Relations section of the Company's website at www.callawaygolf.com. These reports can be accessed free of charge from the Company's website as soon as reasonably practicable after the Company electronically files such materials with, or furnishes them to, the Commission.

Additional Factors Affecting the Company's Business

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

Item 2. *Properties*

The Company and its subsidiaries conduct operations in both owned and leased properties, located primarily near the Company's headquarters in Carlsbad, California. The eight buildings utilized in the Company's Carlsbad operations include corporate offices, manufacturing, research and development, warehousing and distribution facilities, and comprise approximately 735,000 square feet of space. Seven of these properties, representing approximately 585,000 square feet of space, are owned by the Company; an additional property, representing approximately 150,000 square feet of space, is leased. In addition, the Company and its subsidiaries conduct certain international operations outside of the United States, including locations in the United Kingdom, Canada, Japan, Australia and Korea, in leased facilities comprising in the aggregate approximately 205,000 square feet. The Company's operations at each of these properties are used to some extent for both the golf club and golf ball businesses. The Company believes that its facilities currently are adequate to meet its requirements.

Item 3. *Legal Proceedings*

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

In addition, the Company from time to time receives information claiming that products sold by the Company infringe or may infringe patent or other intellectual property rights of third parties. It is possible that one or more claims of potential infringement could lead to litigation, the need to obtain licenses, the need to alter a product to avoid infringement, a settlement or judgment, or some other action or loss by the Company.

On April 6, 2001, a complaint was filed against Callaway Golf Company and Callaway Golf Sales Company, in the Circuit Court of Sevier County, Tennessee, Case No. 2001-241-IV. The complaint seeks to assert a class action by plaintiff on behalf of himself and on behalf of consumers in Tennessee and Kansas who purchased select Callaway Golf products on or after March 30, 2000. Specifically, the complaint alleges that the Company adopted a New Product Introduction Policy governing the introduction of certain of the Company’s new products in violation of Tennessee and Kansas antitrust and consumer protection laws. The plaintiff is seeking damages, restitution and punitive damages. The parties are engaged in discovery.

On November 4, 2002, Callaway Golf Sales Company was served with a complaint filed in the District Court of Sedgwick County, Kansas, Case No. 0203607, seeking to assert an alleged class action on behalf of Kansas consumers who purchased select Callaway Golf products covered by the New Product Introduction Policy. Callaway Golf Company is also named in the Kansas case. The plaintiff in the Kansas case seeks damages and restitution for the alleged class under Kansas law.

On October 3, 2001, the Company filed suit in the United States District Court for the District of Delaware, Civil Action No. 01-669, against Dunlop Slazenger Group Americas, Inc., d/b/a MaxFli (“MaxFli”), for infringement of a golf ball aerodynamics patent owned by the Company. On October 15, 2001, MaxFli filed an answer to the complaint denying any infringement, and also filed a counterclaim against the Company asserting that former MaxFli employees hired by the Company had disclosed confidential MaxFli trade secrets to the Company, and that the Company had used that information to enter the golf ball business. Among other remedies, MaxFli is seeking compensatory damages, punitive damages and attorneys’ fees; a declaratory judgment; and injunctive relief. Both parties have amended their claims. The Company added a claim for false advertising and MaxFli added a claim for inequitable conduct before the Patent and Trademark Office. The parties are engaged in fact and expert discovery. MaxFli submitted a report from its damages expert asserting that MaxFli is entitled to at least $18.5 million in compensatory damages from the Company. MaxFli has informed the Company that it may seek leave to amend its damages expert report to increase the damages that MaxFli will seek at trial. The Company has submitted its own expert report seeking damages of $6.3 million for patent infringement and false advertising. The Company anticipates that each party will challenge the methodology and conclusions in the expert damages reports of the other. The trial date has been scheduled for February 23, 2004. An unfavorable resolution of MaxFli’s counterclaim could have a significant adverse effect upon the Company’s results of operations, cash flows and financial position.

On December 2, 2002, Callaway Golf Company was served with a complaint filed in the Circuit Court of the 19th Judicial District in and for Martin County, Florida, Case No. 935CA, by the Perfect Putter Co., and certain principals of the Perfect Putter Co. Plaintiffs have sued Callaway Golf Company, Callaway Golf Sales Company and a Callaway Golf Sales Company sales representative. Plaintiffs allege that the Company misappropriated certain alleged trade secrets of the Perfect Putter Co. and incorporated those purported trade secrets in the Company’s Odyssey White Hot 2-Ball Putter. Plaintiffs also allege that the Company made false statements and acted inappropriately during discussions with plaintiffs. Plaintiffs are seeking compensatory damages, exemplary damages, attorneys fees and costs, pre- and post-judgment interest and injunctive relief. On December 20, 2002, Callaway Golf removed the case to the United States District Court for the Southern District of Florida, Case No. 02-14342. The plaintiffs have moved in the federal court for an order remanding the case to state court; that motion is pending. No discovery has occurred.

The Company’s Korean subsidiary, Callaway Golf Korea Ltd., inadvertently failed to make a filing for the 1998-2000 fiscal years under the Korean Foreign Exchange Transaction Regulation, which requires disclosure of intercompany transfers received by Callaway Golf Korea from the Company for warranty claims. Failure to make this filing can result in potential criminal penalties for the responsible employee and Callaway Golf Korea. The Company learned about the error in the course of a routine audit by Korean customs authorities. Upon learning of the filing requirement, the required disclosures were made by Callaway Golf Korea for 2001 and 2002, but could not be made retroactively for 1998-2000. The Company’s outside tax advisor advised the Company in late October 2002 that Korean Customs authority procedures require that the matter be referred to Korean prosecutors for review. No action has been filed at this time. The Company believes that if an action is brought and penalties are assessed, they will be immaterial in amount.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims, including the matters specifically noted above. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to estimate the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of December 31, 2002. Except as discussed above with regard to the MaxFli litigation, management believes at this time that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's consolidated annual results of operations or cash flows, or financial position.

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

None.

Executive Officers of the Registrant

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

Name	Age	Position(s) Held
Ronald A. Drapeau	56	Chairman, President and Chief Executive Officer
Richard C. Helmstetter	61	Senior Executive Vice President, Chief of New Products
Steven C. McCracken	52	Senior Executive Vice President, Chief Legal Officer and Secretary
Bradley J. Holiday	49	Executive Vice President and Chief Financial Officer
Patrice Hutin	49	Executive Vice President, Global Sales and Advertising
Robert A. Penicka	40	Executive Vice President, Manufacturing
Ian B. Rowden	43	Executive Vice President

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

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

Steven C. McCracken, is Senior Executive Vice President, Chief Legal Officer and Secretary of the Company and has served in such capacity since August 2000. He served as Executive Vice President, Licensing and Chief Legal Officer from April 1997 to August 2000. He has served as an Executive Vice President since April 1996 and served as General Counsel from April 1994 to April 1997. He served as Vice President from April 1994 to April 1996. He has served as Secretary since April 1994. Prior to joining the

Company, Mr. McCracken was a partner at Gibson, Dunn & Crutcher for 11 years, and had been in the private practice of law for over 18 years. During part of that period, he provided legal services to the Company. Mr. McCracken received a B.A., magna cum laude, from the University of California at Irvine in 1972 and a J.D. from the University of Virginia in 1975.

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

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

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

Ian B. Rowden, is Executive Vice President of the Company. He has served in such capacity since October 2000. Prior to joining Callaway Golf, Mr. Rowden served as Vice President and Director of Worldwide Advertising for The Coca-Cola Company in Atlanta, Georgia. Prior to moving to Atlanta with Coca-Cola in 1996, Mr. Rowden served as Vice President of Marketing for Coca-Cola's China Division in Hong Kong from 1993 to 1995. He began his career with The Coca-Cola Company in Australia in the early 1980s, holding various sales and marketing positions. Mr. Rowden left Coca-Cola in 1988 to serve as General Manager, Marketing of the Power Brewing Company in Brisbane and later became a director and managing partner of DDB Needham, Sydney. He returned to Coca-Cola in 1992 as Vice President of Marketing for the Company's South Pacific Region based in Sydney, Australia.

Information with respect to the Company's employment agreements with Messrs. Drapeau, Helmstetter, McCracken, Holiday and Penicka is contained in the Company's definitive Proxy Statement under the caption "Compensation of Executive Officers — Employment Agreements and Termination of Employment Arrangements," to be filed with the Commission within 120 days after the end of fiscal 2002 (April 30, 2003) pursuant to Regulation 14A, which information is incorporated herein by this reference. In addition, the Company currently has employment agreements with Messrs. Hutin and Rowden, which are included as exhibits to this report.

PART II

Item 5. *Market for Registrant's Common Equity and Related Stockholder Matters*

The Company's Common Stock is listed, and principally traded, on the New York Stock Exchange ("NYSE"). The Company's symbol for its Common Stock is "ELY." As of March 11, 2003, the approximate number of holders of record of the Company's Common Stock was 9,000. The following table sets forth the range of high and low per share sales prices of the Company's Common Stock and per share dividends for the periods indicated.

	Year Ended December 31,					
	2002			2001		
Period:	High	Low	Dividend	High	Low	Dividend
First Quarter	$20.40	$16.51	$0.07	$27.01	$17.25	$0.07
Second Quarter	$20.37	$15.55	$0.07	$26.34	$14.60	$0.07
Third Quarter	$16.10	$10.09	$0.07	$18.12	$12.21	$0.07
Fourth Quarter	$13.60	$ 9.55	$0.07	$19.83	$12.87	$0.07

Securities Authorized for Issuance Under Equity Compensation Plans. Information about the Company's equity compensation plans at December 31, 2002 is as follows:

Equity Compensation Plan Information

	Number of Shares to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance(1)
		(In thousands, except per share amounts)	
Equity Compensation Plans Approved by Shareholders(2)	6,654	$20.35	3,149(3)
Equity Compensation Plans Not Approved by Shareholders(4)	8,282	$20.07	2,464
Total	14,936		5,613

(1) Excludes number of shares to be issued upon exercise of outstanding options.

(2) Consists of the following plans: 1991 Stock Incentive Plan, 1996 Stock Option Plan, 1998 Stock Incentive Plan, Non-Employee Directors Stock Option Plan, 2001 Non-Employee Directors Stock Option Plan and 1999 Employee Stock Purchase Plan.

(3) Includes 835,000 shares reserved for issuance under the 1999 Employee Stock Purchase Plan.

(4) Consists of the following plans: 1995 Employee Stock Incentive Plan, Key Officer Plans and Promotion, Marketing and Endorsement Stock Incentive Plan. No shares are available for grant under the Key Officer Plans as of December 31, 2002. The Promotion, Marketing and Endorsement Stock Incentive Plan expired in January 2003 and, therefore, 812,000 options are no longer available for future issuance. See "— Notes to Consolidated Financial Statements, Note 9 — Stock, Stock Options and Rights."

1995 Employee Stock Incentive Plan. The Company's 1995 Employee Stock Incentive Plan has not been approved by the Company's shareholders. The Company's directors, and officers who are subject to Section 16 of the Securities Exchange Act of 1934, are not eligible to receive awards under this plan. The purpose of this plan is to provide for grants of stock options and other stock-based incentive awards to a broad class of employees of the Company and its subsidiaries, thereby helping to retain and motivate such employees and to align their interests with those of the Company's shareholders. The plan permits the award of stock options, restricted stock, stock bonuses, performance shares, performance units, stock appreciation rights, phantom stock and other stock-based awards. The terms of the awards, including vesting, pricing and termination, are set by the Board of Directors or a committee appointed by the Board from time to time. Although, awards under this plan may be made at less than the fair market value of the Company's Common Stock on the date of grant, the Company's practice has been to grant stock options at exercise prices equal to the fair market value of the Company's Common Stock on the date of grant. Any awards that are granted but which are subsequently cancelled, forfeited or that expire may be reissued under the plan. The plan is scheduled to expire in December 2005. For additional information, see "Notes to Consolidated Financial Statements, Note 9 — Stock, Stock Options and Rights."

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

The following statements of operations data and balance sheet data for the five years ended December 31, 2002 were derived from the Company's audited consolidated financial statements. Consolidated balance sheets at December 31, 2002 and 2001 and the related consolidated statements of operations and of cash flows for each of the three years in the period ended December 31, 2002 and notes thereto appear elsewhere in this report. The data should be read in conjunction with the annual consolidated financial statements, related notes and other financial information appearing elsewhere in this report.

	Year Ended December 31,				
	2002[1]	2001[2]	2000[3]	1999	1998
	(In thousands, except per share data)				
Statement of Operations Data:					
Net sales	$792,064	$816,163	$837,627	$719,038	$703,060
Cost of sales	393,068	411,585	440,119	384,265	410,341
Gross profit	398,996	404,578	397,508	334,773	292,719
Selling, general and administrative expenses	256,733	259,364	240,874	221,043	241,775
Research and development expenses	32,182	32,697	34,579	34,002	36,848
Restructuring (credits) expenses	—	—	—	(5,894)	54,235
Sumitomo transition expenses	—	—	—	5,713	—
Income (loss) from operations	110,081	112,517	122,055	79,909	(40,139)
Interest and other income, net	3,250	7,149	8,791	9,182	3,911
Interest expense	(1,660)	(1,552)	(1,524)	(3,594)	(2,671)
Unrealized energy derivative losses	—	(19,922)	—	—	—
Income (loss) before income taxes and cumulative effect of accounting change	111,671	98,192	129,322	85,497	(38,899)
Income tax provision (benefit)	42,225	39,817	47,366	30,175	(12,335)
Income (loss) before cumulative effect of accounting change	69,446	58,375	81,956	55,322	(26,564)
Cumulative effect of accounting change	—	—	(957)	—	—
Net income (loss)	$ 69,446	$ 58,375	$ 80,999	$ 55,322	$ (26,564)
Earnings (loss) per common share:					
Basic					
Income (loss) before cumulative effect of accounting change	$ 1.04	$ 0.84	$ 1.17	$ 0.79	$ (0.38)
Cumulative effect of accounting change	—	—	(0.01)	—	—
Net income (loss)	$ 1.04	$ 0.84	$ 1.16	$ 0.79	$ (0.38)
Diluted					
Income (loss) before cumulative effect of accounting change	$ 1.03	$ 0.82	$ 1.14	$ 0.78	$ (0.38)
Cumulative effect of accounting change	—	—	(0.01)	—	—
Net income (loss)	$ 1.03	$ 0.82	$ 1.13	$ 0.78	$ (0.38)
Dividends paid per share	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28

	December 31,				
	2002	2001	2000	1999	1998
			(In thousands)		
Balance Sheet Data:					
Cash and cash equivalents	$108,452	$ 84,263	$102,596	$112,602	$ 45,618
Marketable securities	$ —	$ 6,422	$ —	$ —	$ —
Working capital	$259,866	$252,817	$233,163	$205,198	$139,598
Total assets	$679,845	$647,602	$630,934	$616,783	$655,827
Long-term liabilities	$ 27,297	$ 31,379	$ 9,884	$ 11,575	$ 18,723
Total shareholders' equity	$543,387	$514,349	$511,744	$499,934	$453,096

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

(2) For 2001, the Company's net income and earnings per common share include the recognition of unrealized energy contract losses due to changes in the estimated fair value of the energy contract based on market rates. During the second and third quarters of 2001, the Company recorded $6.4 million and $7.8 million, respectively, of after-tax unrealized losses. During the fourth quarter of 2001, the Company terminated the energy contract. As a result, the Company will continue to reflect the derivative valuation account on its balance sheet with no future valuation adjustments for changes in market rates, subject to periodic review (see Notes 7 and 12 to the Consolidated Financial Statements).

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

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

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

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

Allowance for Doubtful Accounts

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

Inventories

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

Long-Lived Assets

In the normal course of business, the Company acquires tangible and intangible assets. The Company periodically evaluates the recoverability of the carrying amount of its long-lived assets (including property, plant and equipment, goodwill and other intangible assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairments are recognized in operating earnings. The Company uses its best judgment based on the most current facts and circumstances surrounding its business when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments, and the fair value of a potentially impaired asset. Changes in assumptions used could have a significant impact on the Company's assessment of recoverability. Numerous factors, including changes in the Company's business, industry segment, and global economy, could significantly impact management's decision to retain, dispose of, or idle certain of its long-lived assets.

Warranty

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

Income Taxes

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

Change in Accounting Estimate

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

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

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

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

The above adjusted net income and earnings per share information has not been prepared in accordance with accounting principles generally accepted in the United States. This information is being provided as additional information for interested readers and is not intended to be in lieu of the Company's reported results which were prepared in accordance with accounting principles generally accepted in the United States and which are discussed elsewhere in this report. The Company's management believes that this pro forma information is useful because it believes the adjusted results more accurately reflect the performance of the Company's operations. The warranty reserve adjustment is a non-cash accounting adjustment. The magnitude of the adjustment is unusual for the Company and management does not believe that it is reasonably likely that a similar adjustment of this magnitude will be made within at least the next two fiscal years.

See below for a further discussion of the effect on the Company's net income of the warranty reserve reduction as well as the non-cash energy derivative charge recorded in 2001.

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is contained in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2002, which note is incorporated herein by this reference.

Results of Operations

Years Ended December 31, 2002 and 2001

Net sales decreased 3% to $792.1 million for the year ended December 31, 2002 as compared to $816.2 million for the year ended December 31, 2001. The overall decrease in net sales is primarily due to a decrease in sales of woods, which decreased $82.9 million (21%), combined with a slight decrease in iron sales, which decreased $5.4 million (2%), in 2002 as compared to 2001. The decrease in wood and iron sales was partially offset by a $44.0 million (65%) increase in sales of putters, a $11.1 million (20%) increase in sales of golf balls, and a $9.1 million (18%) increase in sales of accessories and other products as compared to 2001. The decrease in net sales of woods was expected due to the Company's natural product life cycles with higher priced titanium metal woods being in their second year after introduction. The weakening of the U.S. dollar in relation to other foreign currencies during 2002 had only a nominal favorable impact on net sales. As compared to 2001, the strengthening of foreign currency exchange rates favorably impacted net sales for 2002 by approximately $1.1 million, as measured by applying 2001 exchange rates to 2002 net sales.

The Company believes that its overall net sales during 2002 were negatively affected by adverse economic conditions and continued economic uncertainty, particularly in the United States, Japan and other parts of Asia. Many people in the United States have lost a substantial amount of wealth in the stock market, including some who have lost all or substantially all of their retirement savings in connection with companies that have recently failed. There also have been announcements by companies of significant reductions in workforce and more are possible. This economic uncertainty has resulted in a substantial decline in consumer confidence. These adverse economic conditions and decline in consumer confidence have resulted in a significant reduction in consumer spending on discretionary goods, including the Company's products. The Company also believes that the USGA's reversal of its position regarding the allowance of high COR drivers (see below "USGA Action") has resulted in confusion among consumers in the United States, causing them to postpone or even forgo the purchase of new equipment. The Company's net sales, primarily in the first half of 2002, were also adversely affected by competitive pressures in many of the Company's principal markets and particularly in the United States and Japan. These competitive pressures included the substantial discounting of competitors' current products and close-outs of products that were previously commercially successful, as well as significant retailer support programs. In addition, the Company believes that its net sales for 2002 were negatively affected by a decrease in rounds played. Golf Datatech has reported that rounds played in the United States declined 2.9% in 2002, as compared to 2001. Finally, the Company's premium new wood product for 2002, the Big Bertha C4 Driver, was not well accepted by golfers, resulting in sales that were insufficient to compensate for sales declines in older products.

Net sales information by product category is summarized as follows:

	For the Years Ended December 31,		Growth/(Decline)	
	2002	2001	Dollars	Percent
		(In millions)		
Net Sales:				
Driver and fairway woods	$310.0	$392.9	$(82.9)	(21)%
Irons	243.5	248.9	(5.4)	(2)%
Putters	111.5	67.5	44.0	65%
Golf balls	66.0	54.9	11.1	20%
Accessories and other	61.1	52.0	9.1	18%
	$792.1	$816.2	$(24.1)	(3)%

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

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

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

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

The $9.1 million (18%) increase in sales of accessories and other products is primarily attributable to increased sales resulting from the February 2002 launch of Callaway Golf gloves and the August 2002 launch of the Callaway Golf Forged Wedges.

Net sales information by region is summarized as follows:

	For the Years Ended December 31,		Growth/(Decline)	
	2002	2001	Dollars	Percent
		(In millions)		
Net Sales:				
United States	$438.7	$444.1	$ (5.4)	(1)%
Europe	136.9	118.4	18.5	16%
Japan	102.6	130.7	(28.1)	(21)%
Rest of Asia	58.0	63.9	(5.9)	(9)%
Other foreign countries	55.9	59.1	(3.2)	(5)%
	$792.1	$816.2	$(24.1)	(3)%

Net sales in the United States decreased $5.4 million (1%) to $438.7 million during 2002 versus 2001. Overall, the Company's sales in regions outside of the United States decreased $18.7 million (5%) to $353.4 million during 2002 versus 2001. This decrease in international sales is primarily attributable to a $28.1 million (21%) decrease in sales in Japan, a $5.9 million (9%) decrease in sales in the Rest of Asia, which includes Korea, and a $3.2 million (5%) decrease in sales in other regions outside of the United States. These decreases were partially offset by an $18.5 million (16%) increase in sales in Europe. The Company's net sales in regions outside of the United States were not significantly affected by fluctuations in foreign currency exchange rates. Had exchange rates for 2002 been the same as the 2001 exchange rates, overall sales in regions outside of the United States would have been less than 1% lower than reported results.

For the year ended December 31, 2002, gross profit decreased to $399.0 million from $404.6 million in the comparable period of 2001. Gross profit as a percentage of net sales remained constant at 50% in 2002 as compared to 2001. The Company's gross profit percentage was favorably impacted by the $17.0 million reduction in the Company's warranty accrual during the third quarter of 2002 (see above "Change in Accounting Estimate"). Excluding the effects of such reduction, gross profit as a percentage of net sales decreased 2 percentage points to 48% in 2002 as compared to 2001. The gross profit percentage was also favorably impacted by a reduction in the Company's manufacturing labor and overhead expenses as a percent of net sales and a favorable shift in product mix. These increases were partially offset by a lower average selling price for golf club products combined with close-out pricing for discontinued Rule 35 golf ball products and a price reduction on all golf ball products implemented in August 2002, additional inventory reserves established on ERC II Drivers and Big Bertha C4 Drivers, a customs and duty assessment in Korea, and the $2.3 million charge related to the purchase of the Company's golf ball manufacturing equipment (see below "Financial Condition").

Selling expenses increased $11.8 million (6%) in 2002 to $200.2 million from $188.3 million in 2001, and were 25% and 23% of net sales, respectively. This increase was primarily due to increases in professional golf tour expenses of $6.4 million, depreciation expense of $3.9 million, commission expenses of $2.0 million and other promotional expenses of $1.9 million. These increases were partially offset by decreases in travel costs of $1.4 million.

General and administrative expenses decreased $14.5 million (20%) in 2002 to $56.6 million from $71.1 million in 2001, and were 7% and 9% of net sales, respectively. This decrease is mainly attributable to a decrease of $8.7 million in employee costs, a $6.0 million decrease in depreciation and amortization expenses (primarily due to the implementation of SFAS No. 142 — see Note 5 to the Consolidated Financial Statements) and reduced facility costs of $2.6 million. The decrease in employee costs is due to a reduction in personnel combined with higher severance expense of $2.9 million recorded in 2001.

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

Interest and other income, net decreased $3.9 million (55%) in 2002 to $3.3 million from $7.1 million in 2001. The decrease is primarily attributable to a $2.2 million decrease in royalty income, a $1.5 million decrease in gains on sales of securities, a $0.8 million decline in interest income, a $0.5 million decline in gains on investments to fund the deferred compensation plan, and a $0.5 million decline in foreign currency transaction gains. These decreases were partially offset by $2.1 million of losses recorded in 2001 generated from the sale of the Company's excess energy supply related to an energy contract that was terminated in November of 2001.

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

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

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

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

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

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

The above adjusted net income and earnings per share information has not been prepared in accordance with accounting principles generally accepted in the United States. This information is being provided as additional information for interested readers and is not intended to be in lieu of the Company’s reported results which were prepared in accordance with accounting principles generally accepted in the United States and which are discussed elsewhere in this report. The Company’s management believes that this pro forma information is useful because it believes the adjusted results more accurately reflect the performance of the Company’s operations. The warranty reserve adjustment and the energy derivative charge are both non-cash accounting adjustments. The magnitude of the warranty reserve adjustment is unusual for the Company and management does not believe that it is reasonably likely that a similar adjustment of this magnitude will be made within at least the next two fiscal years. Furthermore, the non-cash energy derivative charge is not the result of the Company’s operations but rather a valuation adjustment of a since terminated energy contract. The Company does not intend to enter into any energy derivative contracts of similar magnitude or duration. Therefore, it is not reasonably likely that a similar valuation charge of that magnitude will be incurred within at least the next two fiscal years.

Years Ended December 31, 2001 and 2000

Net sales decreased 3% to $816.2 million for the year ended December 31, 2001 as compared to $837.6 million in the prior year. The overall decrease in net sales is primarily due to a decrease in sales of irons, which decreased $51.0 million (17%), combined with a slight decrease in woods sales, which decreased $10.1 million (2%), in 2001 as compared to 2000. The decrease in iron and wood sales was partially offset by a $20.9 million (62%) increase in sales of golf balls, a $12.3 million (22%) increase in sales of putters and a $6.5 million (14%) increase in sales of accessories and other products, as compared to 2000. The overall decline in net sales was partially attributable to the timing of the launch of the Company’s new products. The Company did not begin selling its 2002 products in significant quantities in 2001 and thus did not repeat the late-season launch of new products that occurred in 2000.

The Company believes the overall decline in net sales was primarily due to poor weather conditions, a general decline in the number of golf rounds played during the year, aggressive competitive pricing strategies in the industry, economic concerns among retailers and customers in many of the Company’s key markets around the world, the disruption in consumer spending following the September 11th tragedy, and the

USGA's actions in the United States against the Big Bertha ERC II Forged Titanium Driver. The strength of the U.S. dollar in relation to other foreign currencies also had a significant adverse effect upon the Company's net sales during 2001, as compared to 2000. As compared to the year ended December 31, 2000, a decline in foreign currency exchange rates adversely impacted net sales for the year ended December 31, 2001 by approximately $32.9 million, as measured by applying 2000 exchange rates to 2001 net sales.

Net sales information by product category is summarized as follows:

	For the Years Ended December 31,		Growth/(Decline)	
	2001	2000	Dollars	Percent
	(In millions)			
Net Sales:				
Driver and fairway woods	$392.9	$403.0	$(10.1)	(2)%
Irons	248.9	299.9	(51.0)	(17)%
Putters	67.5	55.2	12.3	22%
Golf balls	54.9	34.0	20.9	62%
Accessories and other	52.0	45.5	6.5	14%
	$816.2	$837.6	$(21.4)	(3)%

The $51.0 million (17%) decrease in net sales of irons to $248.9 million represents a decrease in both unit and dollar sales. A decline was expected as the Company's products generally sell better in their first year after introduction and 2001 was the second year in the life cycle of the Big Bertha Steelhead X-14 Stainless Steel Irons. Declines in other older iron models such as the Hawk Eye Tungsten Injected irons were partially offset by the introduction of the Hawk Eye VFT Irons in the second half of the year.

The $10.1 million (2%) decrease in net sales of woods to $392.9 million represents a decrease in both unit and dollar sales. This decrease is primarily attributable to a decline in sales of Big Bertha Steelhead Plus Stainless Steel Metal Woods, which were introduced in January 2000. The decline in metal woods was partially offset by net increases generated by the introduction of the Big Bertha Hawk Eye VFT Metal Woods and ERC II Forged Titanium Drivers which more than offset the decrease in sales of their predecessors, Great Big Bertha Hawk Eye Metal Woods and ERC Forged Titanium Drivers, respectively.

The $12.3 million (22%) increase in sales of putters is primarily attributable to the January 2001 introduction of the Company's Odyssey TriHot putters.

The $20.9 million (62%) increase in net sales of golf balls to $54.9 million represents an increase in both unit and dollar sales. The golf ball growth is largely attributable to the expansion of the Company's golf ball product line offering to two models from only one during 2000. The Company initially launched the CB1 golf ball in March 2001 and the CTU 30 golf ball in November 2001. Net sales for 2000 included sales generated from the Rule 35 golf ball. The CTU 30 golf ball contributed modestly to 2001 net sales due to its introduction in the latter part of 2001 and is the successor ball to the Rule 35 golf ball.

The $6.5 million (14%) increase in sales of accessories and other products is primarily attributable to increased sales of the Company's golf bags in 2001.

Net sales information by region is summarized as follows:

	For the Years Ended December 31,		Growth/(Decline)	
	2001	2000	Dollars	Percent
	(In millions)			
Net Sales:				
United States	$444.1	$451.2	$ (7.1)	(2)%
Europe(1)	118.4	125.5	(7.1)	(6)%
Japan	130.7	122.0	8.7	7%
Rest of Asia	63.9	82.4	(18.5)	(22)%
Other foreign countries(1)	59.1	56.5	2.6	5%
	$816.2	$837.6	$(21.4)	(3)%

(1) The Company acquired certain of its distribution rights in the Europe and Australia regions in the first quarter of 2001 and therefore began selling directly to retailers rather than to a third party distributor.

Net sales in the United States decreased $7.1 million (2%) to $444.1 million during 2001 versus 2000. Overall, the Company’s sales in regions outside of the United States decreased $14.3 million (4%) to $372.1 million during 2001 versus 2000. This decrease is primarily attributable to a $18.5 million (22%) decrease in sales in the Rest of Asia, which includes Korea, and a $7.1 million (6%) decrease in sales in Europe. These decreases were partially offset by a $8.7 million (7%) increase in Japan and a $2.6 million (5%) increase in other regions outside of the United States. The Company’s net sales in regions outside of the United States were negatively affected by fluctuations in foreign currency exchange rates. Had exchange rates during 2001 been the same as exchange rates during 2000, overall net sales in regions outside of the United States would have been approximately 9% higher than reported in 2001.

For the year ended December 31, 2001, gross profits increased to $404.6 million from $397.5 million in 2000 and as a percentage of net sales increased to 50% in 2001 from 47% in 2000. This improvement in gross profit is a result of a shift in club product mix away from lower yielding iron products to higher yielding wood products. Golf ball product profit margins improved during 2001 as compared to 2000, as a result of increased sales volume, plant utilization and production yields. The profit margin was also favorably affected by an $8.1 million reduction in the Company’s warranty expense during 2001 as compared to 2000. The Company has observed a downward trend in actual costs over the past two years associated with warranty claims due to improved product engineering and manufacturing processes combined with a reduction of costs associated with resolving claims. Accordingly, the Company reduced its warranty accrual rate during 2001. For additional information concerning the Company’s warranty accrual, see above “Change in Accounting Estimate.”

Selling expenses increased $17.8 million (10%) in 2001 to $188.3 million from $170.5 million in 2000, and were 23% and 20% of net sales, respectively. This increase was primarily due to increases in advertising costs and promotional expenses of $9.6 million and $5.8 million, respectively, associated with the Company’s new product launches, the rollout of new fitting cart systems and store-in-store project, and other demand creation initiatives.

General and administrative expenses increased $0.8 million (1%) in 2001 to $71.1 million from $70.3 million in 2000, and were 9% and 8% of net sales, respectively. This increase was primarily attributed to $4.0 million of higher employee compensation costs including severance charges, $3.7 million of increased costs due primarily to the consolidation of facilities and $2.9 million of increased legal expenses, partially offset by decreases in depreciation and bad debt expenses of $3.5 million and $5.1 million, respectively.

Research and development expenses decreased $1.9 million (5%) in 2001 to $32.7 million from $34.6 million in 2000. As a percentage of net sales, the expenses remained constant at 4%. The dollar decrease is due to a decrease in depreciation expense and employee costs.

Interest and other income, net decreased $1.7 million (19%) in 2001 to $7.1 million from $8.8 million in 2000. This decrease is primarily attributable to a decrease in interest income of $2.4 million associated with lower average cash balances, and lower interest rates, in 2001 as compared with 2000, a $2.3 million decline in gains on investments to fund the deferred compensation plan, and realized losses of $2.1 million generated from the sale of the Company's excess energy supply, partially offset by a $2.7 million increase in foreign currency transaction gains, a $1.5 million increase in realized securities gains, and a $0.6 million increase in royalty income.

Interest expense remained relatively constant in 2001 at $1.6 million compared to $1.5 million in 2000.

Unrealized energy derivative losses totaled $19.9 million in 2001 as a result of the Company's long-term energy supply contract which was entered into during 2001. The unrealized losses were generated by the decline in electricity rates through November 2001. The Company did not have a similar contract in 2000. See "Supply of Electricity and Energy Contracts" below.

During 2001, the Company recorded a provision for income taxes of $39.8 million and realized $14.5 million in tax benefits related to the exercise of stock options. The provision for income tax as a percentage of income before taxes was 41% in 2001 as compared with 37% in 2000. The effective tax rate was higher in 2001 as compared to 2000 primarily as a result of the increased utilization of tax credits in 2000 and the unrealized energy derivative losses recognized during 2001.

Net income for 2001 decreased 28% to $58.4 million from $81.0 million in 2000. Earnings per diluted share during the year decreased 27% to $0.82 in 2001 as compared to $1.13 in 2000. During 2001, the Company recorded a non-cash charge of $14.2 million after-tax or $0.20 per diluted share, as a result of the change in estimated market value of the Company's energy supply contract (see below "Supply of Electricity and Energy Contracts"). Excluding this non-cash energy supply contract charge, the Company's net income for 2001 as compared to 2000 would have decreased 10% to $72.6 million and diluted earnings per share would have decreased 10% to $1.02.

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

	For the Years Ended December 31,		Growth/(Decline)	
	2001	2000	Dollars	Percent
	(In millions, except per share data)			
Reported net income	$58.4	$81.0	$(22.6)	(28)%
Non-cash energy derivative charge	14.2	—		
Adjusted net income	$72.6	$81.0	$ (8.4)	(10)%
Reported basic earnings per share	$0.84	$1.16	$(0.32)	(28)%
Non-cash energy derivative charge	0.20	—		
Adjusted basic earnings per share	$1.04	$1.16	$(0.12)	(10)%
Reported diluted earnings per share	$0.82	$1.13	$(0.31)	(27)%
Non-cash energy derivative charge	0.20	—		
Adjusted diluted earnings per share	$1.02	$1.13	$(0.11)	(10)%

The above adjusted net income and earnings per share information has not been prepared in accordance with accounting principles generally accepted in the United States. This information is being provided as additional information for interested readers and is not intended to be in lieu of the Company's reported results which were prepared in accordance with accounting principles generally accepted in the United States and which are discussed elsewhere in this report. The Company's management believes that this pro forma information is useful because it believes the adjusted results more accurately reflect the performance of the Company's operations. The non-cash energy derivative charge is a non-cash accounting adjustment. It is not the result of the Company’s operations but rather a valuation adjustment of a since terminated energy contract. The Company does not intend to enter into any energy derivative contracts of similar magnitude or duration. Therefore, it is not reasonably likely that a similar valuation charge of that magnitude will be incurred within at least the next two fiscal years.

Financial Condition

Cash and cash equivalents increased $24.2 million (29%) to $108.5 million at December 31, 2002, from $84.3 million at December 31, 2001. This increase resulted primarily from cash provided by operating activities of $139.2 million, substantially offset by cash used in financing and investing activities of $49.1 million and $67.6 million, respectively. Cash flows provided by operating activities reflect net income adjusted for depreciation and amortization ($37.6 million), decreases in inventory ($21.8 million) and other assets ($10.2 million) combined with increases in accounts payable and accrued expenses ($11.6 million) and income taxes payable ($6.2 million), partially offset by an increase in accounts receivable ($9.3 million) and a decrease in the accrued warranty expense ($21.4 million), which included the $17.0 million reduction to the warranty reserve. See above “Change in Accounting Estimate” for a further discussion of the reduction in warranty reserve. Cash flows used in financing activities are primarily attributable to the acquisition of treasury stock ($46.5 million) and the payment of dividends ($18.6 million), partially offset by proceeds from the exercise of employee stock options ($13.0 million) and purchases under the employee stock purchase plan ($5.3 million). Cash flows used in investing activities are primarily attributable to capital expenditures ($73.5 million), which include the $50.8 million purchase in August 2002 of previously leased manufacturing equipment utilized in the Company’s golf ball operations.

At December 31, 2002, the Company’s net accounts receivable increased $15.2 million from December 31, 2001. This increase is primarily attributable to the institution of the Company’s Preferred Retailer Program in the United States, which offers longer payment terms, among other incentives, for retailers who participate in the program in exchange for providing certain benefits to the Company, including the maintenance of agreed upon inventory levels, prime product placement and retailer staff training.

At December 31, 2002, the Company’s net inventory decreased $16.0 million from December 31, 2001. This decrease is primarily attributable to the Company’s concerted effort to reduce inventory and $8.9 million of additional inventory reserves established on ERC II Drivers and Big Bertha C4 Drivers, partially offset by upward pressures on inventory levels resulting from a broader product line in the current year, including five models of golf balls, as compared to two models at December 31, 2001.

At December 31, 2002, the Company’s net property, plant and equipment increased $34.1 million from December 31, 2001. This increase is primarily due to the August 12, 2002 purchase of previously leased manufacturing equipment utilized in the Company’s golf ball operations. In December 1998, the Company entered into a master lease agreement for the acquisition and lease of golf ball equipment. By December 31, 1999, the Company had finalized its lease program and leased $50.0 million of equipment under the operating lease. On February 11, 2002, pursuant to the master lease agreement, the Company notified the lessor of its election to purchase the leased equipment in August 2002 which was the end of the initial lease term. During the third quarter of 2002, pursuant to the master lease agreement and the Company’s February 11, 2002 notice, the Company paid $50.8 million in full satisfaction of the purchase price of the leased equipment and recorded the $48.5 million estimated fair value of the equipment in fixed assets. The estimated fair value of the equipment was based on an independent appraisal. The actual purchase price was dependent in part upon interest rates on the date of purchase. Due to a decline in interest rates, the actual purchase price exceeded the estimated fair value of the equipment. Therefore, in 2002, a charge of $2.3 million was recorded in cost of sales.

Liquidity

The Company’s principal sources of liquidity, both on a short-term and long-term basis, for the periods presented has generally been cash flows provided by operations. The Company currently expects this to continue. The Company, however, generally maintains a back-up credit facility to cover unexpected liquidity needs. At December 31, 2002, the Company had two credit facilities, namely a revolving credit facility for up to $120.0 million, subject to a borrowing base formula and certain other limitations (the “Amended Credit Agreement”) and an accounts receivable securitization facility for up to $80.0 million, subject to a borrowing base formula and certain other limitations (the “Accounts Receivable Facility”). At December 31, 2002, there were no advances outstanding under either of these facilities and the Company has not used either of these facilities since the second quarter of 1999 (except for some non-material letters of credit issued under the Amended Credit Agreement, primarily to facilitate certain international shipments of components). Both the Amended Credit Agreement and the Accounts Receivable Facility include certain restrictions, including restrictions on the amount of dividends the Company can pay and the amount of its own stock the Company can repurchase. These facilities also required the Company to maintain certain minimum financial ratios, including a fixed charge coverage ratio. At September 30, 2002, the Company was not in compliance with the fixed charge coverage ratio. The noncompliance with this ratio resulted from the Company’s purchase of its previously leased golf ball manufacturing equipment during the third quarter. Excluding the golf ball equipment purchase, the Company would have been in compliance with the fixed charge coverage ratio at September 30, 2002. At December 31, 2002, the Company achieved a fixed charge coverage ratio in excess of the minimum requirements prescribed by the credit facilities. In February 2003, the Amended Credit Agreement was amended to exclude the golf ball equipment purchase from the calculation of the fixed charge coverage ratio and the Company obtained a waiver for prior non-compliance. Both of the credit facilities were scheduled to expire in February 2004. The Company therefore began reviewing what type of back-up or other financing arrangements it would need upon expiration or termination of these facilities. As part of this review, the Company determined that it had no current or expected need for the Accounts Receivable Facility and therefore in February 2003 terminated the Accounts Receivable Facility. The Company expects to obtain a new credit facility to provide an additional source of liquidity prior to the expiration of the Amended Credit Agreement.

In August 2001, the Company announced that its Board of Directors authorized it to repurchase shares of 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 the repurchase program in August 2001 and during the second quarter of 2002 completed the program which resulted in the repurchase of 5.8 million shares of the Company’s Common Stock at an average cost of $17.11 per share for a total of $100.0 million. In May 2002, the Company announced that its Board of Directors authorized it to repurchase additional shares of 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 $50.0 million. Under this authorization, the Company has spent $31.0 million to repurchase 2.0 million shares of its Common Stock at an average cost of $15.75 per share through December 31, 2002. During the year ended December 31, 2002, the Company spent a total of $46.5 million to repurchase 2.8 million shares under the August 2001 and May 2002 combined authorizations at an average cost of $16.40 per share. As of December 31, 2002, the Company had $19.0 million of remaining authority under the May 2002 stock repurchase authorization.

The following table provides as of December 31, 2002 certain significant cash obligations that will affect the Company’s future liquidity:

		Payments Due By Period			
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
			(In millions)		
Operating leases(1)	$13.2	$ 4.3	$ 4.6	$3.8	$0.5
Unconditional purchase obligations(2)	9.2	3.6	5.6	—	—
Deferred compensation(3)	7.4	1.0	1.4	0.8	4.2
Long-term debt(4)	3.2	3.2	—	—	—
Total(5)	$33.0	$12.1	$11.6	$4.6	$4.7

(1) The Company leases certain warehouse, distribution and office facilities as well as office equipment under operating leases. The amount presented in the table represents commitments for minimum lease payments under non-cancelable operating leases.

(2) The amounts indicated in this line item reflect long-term purchase agreements for various key raw materials. As of December 31, 2002, the purchase commitments covered by these agreements aggregate approximately $3.6 million for 2003 related to golf ball materials and approximately $5.6 million related to golf club materials through December 2004. During the first two months of 2003, the Company satisfied the remaining $5.6 million minimum purchase requirements related to golf club materials. In addition, in the normal course of operations, the Company enters into unconditional purchase obligations with various vendors and suppliers of goods and services through purchase orders or other documentation or are undocumented except for an invoice. Such obligations are generally outstanding for periods less than a year and are settled by cash payments upon delivery of goods and services and are not reflected in the total unconditional purchase obligations presented in this line item.

(3) The Company has an unfunded, non-qualified deferred compensation plan. The plan allows officers, certain other employees and directors of the Company to defer all or part of their compensation, to be paid to the participants or their designated beneficiaries after retirement, death or separation from the Company. To support the deferred compensation plan, the Company has elected to purchase Company-owned life insurance. The cash surrender value of the Company-owned insurance related to deferred compensation is included in other assets and was $9.1 million at December 31, 2002.

(4) In April 2001, the Company entered into a note payable in the amount of $7.5 million as part of a licensing agreement for patent rights. The unsecured, interest-free note payable matures on December 31, 2003 and is payable in quarterly installments.

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

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

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company’s customers and licensees in connection with the use, sale and/or license of Company products, (ii) indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease, (iii) indemnities to vendors and service providers pertaining to claims based on the negligence or willful misconduct of the Company, (iv) indemnities involving the accuracy of representations and warranties in certain contracts, and (v) indemnities to directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware. In addition, the Company has made contractual commitments to several employees providing for severance payments upon the occurrence of certain prescribed events. The Company also has several consulting agreements that provide for payment of fees upon the issuance of patents and/or the commercialization of research results. The Company has also issued a guarantee in the form of a standby letter of credit as security for contingent liabilities under certain workers compensation insurance policies. The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum amount of future payments the Company could be obligated to make. The Company has not recorded any liability for these indemnities, commitments and guarantees in the accompanying consolidated balance sheets.

In addition to the contractual obligations listed above, the Company's liquidity could also be adversely affected by an unfavorable outcome with respect to claims and litigation that the Company is subject to from time to time. See Note 12 to the Company's Consolidated 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 relatively new and through December 31, 2002 have not generated cash flows sufficient to fund these operations. The Company has not achieved the sales volume necessary for its golf ball business to be profitable The Company is evaluating all available actions to reduce and eliminate the losses in its golf ball business. Some of these actions could result in a write-down of a significant portion of the assets used in the Company's golf ball operations.

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

USGA Action

In 1998, the United States Golf Association ("USGA") adopted a so-called "spring-like effect test" that limited the coefficient of restitution ("COR") of drivers. At that time, the Royal and Ancient Golf Club of St. Andrews ("R&A") disagreed with the USGA and did not adopt such a test because it did not believe that such a limitation was needed or in the best interests of the game of golf.

On October 18, 2000, the Company announced that it intended to sell its ERC II Forged Titanium Driver ("ERC II Driver") in the United States despite the fact that it was ruled to be non-conforming by the USGA. To the Company's knowledge, it was the first large, premium brand golf equipment company to sell non-conforming equipment in the United States. By undertaking this approach, the Company had hoped to expand participation in the game of golf in the United States — the source of more than half 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 believed that this was the best strategy for the Company and its shareholders, and one that was good for the game of golf as well, the strategy proved to be risky. The USGA vigorously and openly opposed the sale or use of the ERC II Driver. On December 8, 2000, the USGA announced that scores in rounds played with clubs that do not conform to USGA rules, such as the ERC II Driver, may not be posted for USGA handicap purposes. That position was reinforced by further announcements by the USGA.

As a result of the USGA's actions, a significant number of U.S. retailers declined to carry the ERC II Driver and a significant number of U.S. golfers decided that they did not want to purchase a driver that was non-conforming under USGA rules. Retailer and/or consumer backlash against the introduction of a non-conforming product hurt sales of ERC II Drivers in the United States, and may have injured sales of other, conforming products, or otherwise damaged the brand.

On May 9, 2002, the USGA announced that the USGA and the R&A had reached a proposed compromise position with respect to the COR of drivers. Under the compromise, the COR limit would have been set at 0.860 under both the rules of the USGA and the R&A effective January 1, 2003. There would have been added to the Rules of Golf a new "condition of competition" that would have permitted the adoption of 0.830 as the COR limit for competitions involving elite golfers. Currently, all professional tours in the United States play by the 0.830 limit. The R&A had announced that it would adopt 0.830 as the COR limit in the 2003 British Open Championships. The PGA European Tour, the Japan Golf Tour and the Asian Tour currently have no limits on COR. In addition, as part of the compromise, the USGA and the R&A stated that the COR limit under the Rules of Golf would thereafter be reduced, from 0.860 to 0.830 on January 1, 2008.

On August 6, 2002, the USGA and the R&A announced that they would not be implementing the May 9, 2002 proposal. Instead the USGA announced that it would make no change to its Rules of Golf, keeping the current COR limit of 0.830 in place in the United States and other jurisdictions that follow the Rules of Golf as published by the USGA. The R&A announced that effective January 1, 2008 it would establish a COR limit of 0.830 under its Rules of Golf. In addition, the R&A announced that it would adopt a "condition of competition" effective January 1, 2003 for use at competitions involving only highly skilled golfers (e.g., the British Open Championship and competitions organized by major professional tours). Under this "condition of competition" driving clubs would be limited to a COR of no higher than 0.830. Until January 1, 2008, there would be no limit on COR in R&A jurisdictions except in those events where the "condition of competition" was applied.

In anticipation of the possible adoption of the proposed compromise as announced on May 9, 2002, and in response to competitive offerings by other manufacturers, the Company had promoted the sale of its ERC II Driver in the United States and Canada beginning in late July 2002. The ERC II Driver has a COR above the 0.830 limit, but would have been conforming under the new, higher limit of 0.860 contained in the May 9, 2002 proposal. With the announcement that the USGA would no longer be raising the COR limit in its jurisdictions effective January 1, 2003, the Company modified its promotion and has offered various exchange and return privileges to consumers and retailers, respectively, who purchased ERC II Drivers during the promotion in reliance upon a change in the Rules of Golf by the USGA. Although the amount of ERC II Drivers exchanged or returned was not significant, the Company believes that the USGA's reversal of its position has resulted in confusion among consumers, causing them to postpone or even forgo the purchase of new equipment.

The net effect of the reversal in position by the USGA regarding the May 9, 2002 proposal is to leave the COR limitations for driving clubs unchanged in the United States. The Company had planned for this contingency, and has developed new driver products for sale in USGA jurisdictions that conform to this limit (e.g., Great Big Bertha II Titanium Drivers). In addition, the Company has developed new driver products for sale in R&A jurisdictions that take advantage of the absence of COR restrictions until January 1, 2008 (e.g., Great Big Bertha II+ Titanium Drivers). While the Company believes it would have had an additional competitive advantage in the United States and Canada had the USGA adopted the May 9, 2002 proposal and raised the COR limit to 0.860, it continues to believe that its driver products that conform to the 0.830 limit have performance and other attributes that make many golfers prefer them over the offerings of competitors.

Supply of Electricity and Energy Contracts

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

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

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

Because the Enron Contract provided for the Company to purchase an amount of energy in excess of what it expected to be able to use in its operations, the Company accounted for the Enron Contract as a derivative instrument in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities.” The Enron Contract did not qualify for hedge accounting under SFAS No. 133. Therefore, the Company recognized changes in the estimated fair value of the Enron Contract currently in earnings. The estimated fair value of the Enron Contract was based upon a present value determination of the net differential between the contract price for electricity and the estimated future market prices for electricity as applied to the remaining amount of unpurchased electricity under the Enron Contract. Through September 30, 2001, the Company had recorded unrealized pre-tax losses of $19.9 million ($7.7 million in the second quarter of 2001 and $12.2 million in the third quarter of 2001).

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

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

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

The Company believes the Enron Contract has been terminated, and as of March 14, 2003, EESI has not asserted any claim against the Company. There can be no assurance, however, that EESI or another party will not assert a future claim against the Company or that a bankruptcy court or arbitrator will not ultimately nullify the Company’s termination of the Enron Contract. No provision has been made for contingencies or obligations, if any, under the Enron Contract beyond November 30, 2001.

Certain Factors Affecting Callaway Golf Company

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

Terrorist Activity and Armed Conflict

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

Adverse Global Economic Conditions

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

The Company believes that the current economic conditions in many of the countries where the Company conducts business are unfavorable to the golf industry. The economic conditions in many of the Company's key markets around the world are currently viewed by many as uncertain or troubled. Many people in the United States have lost a substantial amount of wealth in the stock market, including some who have lost all or substantially all of their retirement savings. Furthermore, in the United States, there have been announcements by companies of significant reductions in force, and others are possible, and consumers are less likely to purchase new golf equipment when they are unemployed. The Company believes that these adverse conditions have adversely affected the Company's sales and will continue to do so until such conditions improve.

Foreign Currency Risk

Almost half of the Company's sales are international sales. As a result, the Company conducts transactions in approximately 12 currencies worldwide. Conducting business in such various currencies increases the Company's exposure to fluctuations in foreign currency exchange rates relative to the U.S. dollar. Changes in exchange rates may positively or negatively affect the Company's financial results.

Overall, the Company is generally negatively affected by a stronger U.S. dollar in relation to the foreign currencies in which the Company conducts business. Conversely, overall, the Company is generally positively affected by a weaker U.S. dollar relative to such foreign currencies. For the effect of foreign currencies on the Company's financial results for the current reporting periods, see above "Results of Operations."

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

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

Growth Opportunities

Golf Clubs. In order for the Company to significantly grow its sales of golf clubs, the Company must either increase its share of the market for golf clubs or the market for golf clubs must grow. The Company already has a significant share of the worldwide premium golf club market and therefore opportunities for additional market share may be limited. The Company does not believe there has been any material increase in participation in the United States in 2000, 2001 or 2002. Golf Datatech has reported that the number of rounds played in the United States during 2002 decreased 2.9% as compared to the same period of 2001 and has decreased each year since at least 1999. Furthermore, the Company believes that since 1997 the overall worldwide premium golf club market has generally not experienced substantial growth in dollar volume from year to year. There is no assurance that the overall dollar volume of the worldwide premium golf club market will grow, or that it will not decline, in the future.

Golf Balls. The Company began selling its golf balls in February 2000 and has not yet obtained a sufficient share of the golf ball market to support profitable operations. Although opportunities exist for the acquisition of additional market share in the golf ball market, such market share is currently held by some well-established and well-financed competitors. There is no assurance that the Company will be able to obtain additional market share in this very competitive golf ball market. If the Company is unable to obtain additional market share, its golf ball sales growth may be limited (see also above "Liquidity").

Golf Ball Costs

The cost of entering the golf ball business has been significant. The cost of competing in the golf ball business has also been significant and has required significant investment in advertising, tour and promotion. To date, 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. As presently structured, the Company will need to produce and sell golf balls in large volumes to cover its costs and become profitable. Although the Company's golf ball sales have shown improvement, there is no assurance that the Company will be able to achieve the sales volume necessary to make its golf ball business profitable. Until the golf ball business becomes profitable, the Company's results of operations, cash flows and financial position will continue to be negatively affected. The Company is evaluating all available actions to reduce and eliminate the losses in its golf ball business. Some of these actions could result in a write-down of a significant portion of the assets used in the Company's golf ball operations (see also above "Liquidity").

Manufacturing Capacity

The Company plans its manufacturing capacity based upon the forecasted demand for its products. Actual demand for such products may exceed or be less than forecasted demand. The Company's unique product designs often require sophisticated manufacturing techniques, which can require significant start-up expenses and/or limit the Company's ability to quickly expand its manufacturing capacity to meet the full demand for its products. If the Company is unable to produce sufficient quantities of new products in time to fulfill actual demand, especially during the Company's traditionally busy season, it could limit the Company's sales and adversely affect its financial performance. On the other hand, the Company invests in manufacturing capacity and commits to components and other manufacturing inputs for varying periods of time, which can limit the Company's ability to quickly react if actual demand is less than forecasted demand. This could result in less than optimum capacity usage and/or in excess inventories and related obsolescence charges that could adversely affect the Company's financial performance. In addition, if the Company were to experience delays, difficulties or increased costs in its production of golf clubs or golf balls, including production of new products needed to replace current products, the Company's future golf club or golf ball sales could be adversely affected.

Dependence on Energy Resources

The Company's golf club and golf ball manufacturing facilities use, among other resources, significant quantities of electricity to operate. In 2001, some companies in California, including the Company, experienced periods of blackouts during which electricity was not available. The Company has taken certain steps to provide access to alternative power supplies for certain of its operations, and believes that these measures could mitigate any impact resulting from possible future blackouts. The Company is currently purchasing wholesale energy through the Company's energy service provider under short-term contracts. If energy rates were once again to increase significantly, the Company's energy costs could increase significantly and adversely affect the Company's results of operations.

Dependence on Certain Suppliers and Materials

The Company is dependent on a limited number of suppliers for its clubheads and shafts, some of which are single-sourced. In addition, some of the Company's products require specifically developed manufacturing techniques and processes which make it difficult to identify and utilize alternative suppliers quickly. The Company believes that suitable clubheads and shafts could be obtained from other manufacturers in the event its regular suppliers were unable to provide components. However, there could be a significant production delay or disruption caused by the inability of current suppliers to deliver or the transition to other suppliers, which in turn could have a material adverse impact on the Company's results of operations. The Company is also single-sourced or dependent on a limited number of suppliers for the materials it uses to make its golf balls. Many of the materials are customized for the Company. Any delay or interruption in such supplies could have a material adverse impact upon the Company's golf ball business. If the Company did experience any such delays or interruptions, there is no assurance that the Company would be able to find adequate alternative suppliers at a reasonable cost or without significant disruption to its business.

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

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

Competition

Golf Clubs. The worldwide market for premium golf clubs is highly competitive, and is served by a number of well-established and well-financed companies with recognized brand names, as well as new companies with popular products. For example, in 2002 Nike began marketing and selling golf clubs that compete with the Company's products, and several manufacturers in Japan have announced plans to expand their businesses in the United States. New product introductions, price reductions, consignment sales, extended payment terms and "close-outs" (including close-outs of products that were recently commercially successful) by competitors continue to generate increased market competition. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that successful marketing activities, discounted pricing, consignment sales, extended payment terms or new product introductions by competitors will not negatively impact the Company's future sales.

Golf Balls. The premium golf ball business is also highly competitive and may be becoming even more competitive. There are a number of well-established and well-financed competitors, including one competitor with an estimated market share in excess of 50% of the premium golf ball business. Furthermore, as competition in this business increases, many of these competitors are substantially discounting the prices of their products. This increased competition has resulted in significant expenses in both tour and advertising. In order for its golf ball business to be successful, the Company will need to penetrate the market share held by existing competitors, while competing with new entrants, and must do so at prices and costs that are profitable. There can be no assurance that the Company's golf balls will obtain the market acceptance or profitability necessary to be commercially successful (see also above "Liquidity").

Market Acceptance of Products

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

New Product Introduction and Product Cyclicality

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

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

Seasonality and Adverse Weather Conditions

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

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

Conformance with the Rules of Golf

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

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

In addition, there is no assurance that the Company's future products will satisfy USGA and/or R&A standards, or that existing USGA and/or R&A standards will not be altered in ways that adversely affect the sales of the Company's products or the Company's brand. For example, both the USGA and the R&A are considering rules which would limit clubhead volume. If any such volume limitation rules were adopted and caused one or more of the Company's current products to be non-conforming, the Company's sales of such products could be adversely affected. Furthermore, such clubhead volume limitations would restrict the Company's ability to develop new golf club products.

Golf Professional Endorsements

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

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

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

Intellectual Property and Proprietary Rights

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

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

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

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

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

Product Returns

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

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

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

"Gray Market" Distribution

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

International Risks

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

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

Credit Risk

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

Information Systems

All of the Company's major operations, including manufacturing, distribution, sales and accounting, are dependent upon the Company's information computer systems. Any significant disruption in the operation of such systems, as a result of an internal system malfunction, infection from an external computer virus, or otherwise, would have a significant adverse effect upon the Company's ability to operate its business. Although the Company has taken steps to mitigate the effect of any such disruptions, there is no assurance that such steps would be adequate in a particular situation. Consequently, a significant or extended disruption in the operation of the Company's information systems could have a material adverse effect upon the Company's operations and therefore financial performance and condition.

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

The Company uses derivative financial instruments for hedging purposes to limit its exposure to changes in foreign exchange rates. Transactions involving these financial instruments are with credit-worthy firms. The use of these instruments exposes the Company to market and credit risk which may at times be concentrated with certain counterparties, although counterparty nonperformance is not anticipated. The Company also utilized a derivative commodity instrument, the Enron Contract, to manage electricity costs in the volatile California energy market during the period of June 2001 through November 2001. Pursuant to its terms, the Enron Contract was terminated and the Company has not entered into another long-term energy contract that would be considered a derivative commodity instrument. The Company is also exposed to interest rate risk from its credit facilities and accounts receivable securitization arrangement. (See above "Certain Factors Affecting Callaway Golf Company — Foreign Currency Risks").

Foreign Currency Fluctuations

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

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

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

At December 31, 2002, 2001 and 2000, the notional amounts of the Company's foreign exchange contracts were approximately $134.8 million, $157.0 million and $118.2 million, respectively. Of the total contracts outstanding at December 31, 2002, 2001 and 2000, notional amounts of approximately $84.8 million, $122.6 million and $107.8 million, respectively, were designated as cash flow hedges. The Company estimates the fair values of derivatives based on quoted market prices or pricing models using current market rates, and records all derivatives on the balance sheet at fair value. At December 31, 2002, the fair value of foreign currency-related derivatives was recorded as current assets of $0.1 million and current liabilities of $2.6 million. At December 31, 2001, the fair value of foreign currency-related derivatives was recorded as current assets of $8.8 million.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is initially recorded in accumulated other comprehensive income ("OCI") as a separate component of shareholders' equity and subsequently reclassified into earnings in the period during which the hedged transaction is recognized in earnings. During the years ended December 31, 2002, 2001 and 2000, the Company recorded the following activity in accumulated other comprehensive income:

	Year Ended December 31,		
	2002	2001	2000
		(In millions)	
Beginning OCI balance related to cash flow hedges	$ 6.4	$ (1.6)	$ —
Add: Net gain/(loss) initially recorded in OCI	(3.9)	10.9	(1.6)
Deduct: Net gain reclassified from OCI into earnings	3.9	2.9	—
Ending OCI balance related to cash flow hedges	$(1.4)	$ 6.4	$(1.6)

During the year ended December 31, 2002, gains of $0.2 million were reclassified into earnings as a result of the discontinuance of cash flow hedges. During the years ended December 30, 2001 and 2000, no gains or losses were reclassified into earnings as a result of the discontinuance of cash flow hedges.

As of December 31, 2002, $1.4 million of deferred net losses related to derivative instruments designated as cash flow hedges were included in accumulated other comprehensive income. These derivative instruments hedge transactions that are expected to occur within the next twelve months. As the hedged transactions are completed, the related deferred net gain or loss is reclassified from accumulated other comprehensive income into earnings. The Company does not expect that such reclassifications would have a material effect on the Company's earnings, as any gain or loss on the derivative instruments generally would be offset by the opposite effect on the related underlying transactions.

The ineffective portion of the gain or loss for derivative instruments that are designated and qualify as cash flow hedges is immediately reported in interest and other income, net. For foreign currency contracts designated as cash flow hedges, hedge effectiveness is measured using the spot rate. Changes in the spot-forward differential are excluded from the test of hedging effectiveness and are recorded currently in earnings as a component of interest and other income, net. During the years ended December 31, 2002, 2001 and 2000, the Company recorded net gains of $0.4 million and $2.0 million and a net loss of $0.2 million, respectively, as a result of changes in the spot-forward differential. Assessments of hedge effectiveness are performed using the dollar offset method and applying a hedge effectiveness ratio between 80% and 125%. Given that both the hedged item and the hedging instrument are evaluated using the same spot rate, the Company anticipates the hedges to be highly effective. The effectiveness of each derivative is assessed quarterly.

At December 31, 2002, 2001 and 2000, the notional amounts of the Company's outstanding foreign exchange contracts used to hedge outstanding balance sheet exposures were approximately $49.9 million, $34.4 million and $10.5 million, respectively. The gains and losses on foreign currency contracts used to hedge balance sheet exposures are recognized in interest and other income in the same period as the remeasurement gain and loss of the related foreign currency denominated assets and liabilities and thus offset these gains and losses. During the years ended December 31, 2002, 2001 and 2000, the Company recorded a net loss of $8.1 million and net gains of $4.5 million and $5.3 million, respectively, due to net realized and unrealized gains and losses on contracts used to hedge balance sheet exposures.

Sensitivity analysis is the measurement of potential loss in future earnings of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates or foreign currency values. The Company used a sensitivity analysis model to quantify the estimated potential effect of unfavorable movements of 10% in foreign currencies to which the Company was exposed at December 31, 2002 through its derivative financial instruments.

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

The estimated maximum one-day loss from the Company's foreign-currency derivative financial instruments, calculated using the sensitivity analysis model described above, is $14.7 million at December 31, 2002. The portion of the estimated loss associated with the foreign exchange contracts that offset the remeasurement gain and loss of the related foreign currency denominated assets and liabilities is $5.4 million at December 31, 2002 and would impact earnings. The remaining $9.3 million of the estimated loss at December 31, 2002 is derived from outstanding foreign exchange contracts designated as cash flow hedges and would initially impact OCI. The Company believes that such a hypothetical loss from its derivatives would be offset by increases in the value of the underlying transactions being hedged.

Electricity Price Fluctuations

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

Interest Rate Fluctuations

Additionally, the Company is exposed to interest rate risk from its Amended Credit Agreement (see Note 6 to the Company's Consolidated Financial Statements) which is indexed to the London Interbank Offering Rate. No amounts were advanced or outstanding under this facility at December 31, 2002. The Accounts Receivable Facility was terminated in February 2003.

Note 6 to the Company's Consolidated Financial Statements outlines the principal amounts, if any, and other terms required to evaluate the expected cash flows and sensitivity to interest rate changes.

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

The Company's consolidated financial statements at December 31, 2002 and 2001 and for each of the three years in the period ended December 31, 2002, together with the reports of independent auditors, are included in this Annual Report on Form 10-K on pages F-1 through F-40.

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

Dismissal of PricewaterhouseCoopers LLP

In early 2001, the Company's Audit Committee requested that the Company evaluate proposals from other firms in addition to its then current outside auditor, PricewaterhouseCoopers LLP ("PwC"). PwC had been the Company's auditor since prior to the Company's initial public offering, and the Committee was aware of the view that companies should periodically bring in a "fresh" auditor to review its accounting practices. Management solicited proposals from likely candidates, and during the second quarter of 2001 the Audit Committee reviewed a number of candidates that had been pre-screened by management. At the conclusion of this review process, the Audit Committee recommended to the Board of Directors, and the Board of Directors approved, the appointment, effective as of June 18, 2001, of Arthur Andersen LLP ("Arthur Andersen") as the Company's new outside auditor for fiscal year 2001 (PwC's engagement officially ended on June 15, 2001). The Audit Committee recommended the change because, among other things, it believed that a change in outside auditor could help assure an independent and rigorous review of the Company's practices. In addition, the Committee felt that Arthur Andersen offered a very high level of audit services at a competitive cost to the Company.

PwC's report in connection with its audit of the Company's consolidated financial statements for the year ended December 31, 2000, does not contain an adverse opinion or a disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles. In addition, during the Company's fiscal year ended December 31, 2000 and through the subsequent interim period through the date PwC ceased to be the Company's auditor, there were no disagreements with PwC within the meaning of Instruction 4 of Item 304 of Regulation S-K on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

Dismissal of Arthur Andersen LLP

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

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

Dismissal of and Disagreement with KPMG LLP

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

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

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

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

The Company's Board of Directors, upon recommendation of the Audit Committee, approved the appointment of Deloitte & Touche LLP ("Deloitte & Touche") effective December 12, 2002, subject to Deloitte & Touche's customary new client acceptance procedures which were completed December 17, 2002, as the Company's independent auditors for 2002 and until otherwise replaced. During the two fiscal years ended December 31, 2001, and the subsequent interim period prior to the appointment of Deloitte & Touche, the Company did not consult with Deloitte & Touche regarding any of the matters set forth in Item 304(a)(2)(i) or (ii) of Regulation S-K. For a discussion of the final accounting treatment of the warranty reserve reduction and the effect on the Company's financial statements if the reduction had not been recorded in 2002, see Note 3, "Change in Accounting Estimate," to the Company's consolidated financial statements.

PART III

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

Certain information concerning the Company's executive officers is included under the caption "Executive Officers of the Registrant" following Part I, Item 4 of this Form 10-K. The other information required by Item 10 has been included in the Company's definitive Proxy Statement under the captions "Board of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance," to be filed with the Commission within 120 days after the end of fiscal 2002 (April 30, 2003) pursuant to Regulation 14A, which information is incorporated herein by this reference.

Item 11. ***Executive Compensation***

The Company maintains employee benefit plans and programs in which its executive officers are participants. Copies of certain of these plans and programs are set forth or incorporated by reference as Exhibits to this report. Information required by Item 11 is included in the Company's definitive Proxy Statement under the captions "Compensation of Executive Officers," "Report of the Compensation and Management Succession Committee and the Stock Option Committee (Employee Plans) of the Board of Directors," "Performance Graph" and "Board of Directors," to be filed with the Commission within 120 days after the end of fiscal 2002 (April 30, 2003) pursuant to Regulation 14A, which information is incorporated herein by this reference.

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

The information required by Item 12 is included in Item 5 of this report and the Company's definitive Proxy Statement under the caption "Beneficial Ownership of the Company's Securities," to be filed with the Commission within 120 days after the end of fiscal 2002 (April 30, 2003) pursuant to Regulation 14A, which information is incorporated herein by this reference.

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

The information required by Item 13 is included in the Company's definitive Proxy Statement under the captions "Compensation of Executive Officers — Compensation Committee Interlocks and Insider Participation," to be filed with the Commission within 120 days after the end of fiscal 2002 (April 30, 2003) pursuant to Regulation 14A, which information is incorporated herein by this reference.

Item 14. ***Controls and Procedures***

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) of the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information required to be included in the Company's periodic filings with the Commission.

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

PART IV

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

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

1. *Financial Statements.* The following consolidated financial statements of Callaway Golf Company and its subsidiaries required to be filed pursuant to Part II, Item 8 of this Form 10-K, are included in this Annual Report on Form 10-K on pages F-1 through F-40:

Consolidated Balance Sheets at December 31, 2002 and 2001;

Consolidated Statements of Operations for the years ended December 31, 2002, 2001 and 2000;

Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000;

Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended December 31, 2002, 2001 and 2000;

Notes to Consolidated Financial Statements; and

Reports of Independent Auditors and Independent Public Accountants.

2. *Financial Statement Schedule.* The following consolidated financial statement schedule of Callaway Golf Company and its subsidiaries required to be filed pursuant to Part IV, Item 15 of this Form 10-K, is included in this Annual Report on Form 10-K on pages S-1 through S-4:

Schedule II — Consolidated Valuation and Qualifying Accounts; and

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

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

3. *Exhibits.*

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

3.1	Certificate of Incorporation, incorporated herein by this reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission ("Commission") on July 1, 1999 (file no. 1-10962).
3.2	Second Amended and Restated Bylaws, as amended and restated as of February 27, 2003.†
4.1	Dividend Reinvestment and Stock Purchase Plan, incorporated herein by this reference to the Prospectus in the Company's Registration Statement on Form S-3, as filed with the Commission on March 29, 1994 (file no. 33-77024).
4.2	Rights Agreement by and between the Company and Mellon Investor Services LLC (f/k/a Chemical Mellon Shareholder Services) as Rights Agent, dated as of June 21, 1995, incorporated herein by this reference to Exhibit 4.0 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, as filed with the Commission on August 12, 1995 (file no. 1-10962).
4.3	First Amendment to Rights Agreement, effective June 22, 2001, by and between the Company and Mellon Investor Services LLC, as Rights Agent, incorporated herein by this reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 21, 2002 (file no. 1-10962).

4.4	Certificate of Determination of Rights, Preferences, Privileges and Restrictions of Series A Junior Participating Preferred Stock, incorporated herein by this reference to Exhibit 3.1.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, as filed with the Commission on August 12, 1995 (file no. 1-10962).
	Executive Compensation Arrangements and Indemnification Agreements
10.1	Second Amended Executive Officer Employment Agreement, effective as of June 1, 2002, by and between the Company and Ronald A. Drapeau, incorporated herein by this reference to Exhibit 10.53 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, as filed with the Commission on August 14, 2002 (file no. 1-10962).
10.2	Executive Officer Employment Agreement, entered into as of January 1, 2000, by and between the Company and Ely Callaway, incorporated herein by this reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, as filed with the Commission on August 14, 2000 (file no. 1-10962).
10.3	First Amendment to Executive Officer Employment Agreement, effective as of November 13, 2000, by and between the Company and Ely Callaway, incorporated herein by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (file no. 1-10962).
10.4	Executive Officer Employment Agreement by and between the Company and Richard Helmstetter entered into as of January 1, 1998, incorporated herein by this reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, as filed with the Commission on March 31, 1998 (file no. 1-10962).
10.5	First Amended Executive Officer Employment Agreement, effective as of June 1, 2002, by and between the Company and Steven C. McCracken, incorporated herein by this reference to Exhibit 10.54 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, as filed with the Commission on August 14, 2002 (file no. 1-10962).
10.6	First Amended Executive Officer Employment Agreement, effective as of June 1, 2002, by and between the Company and Bradley J. Holiday, incorporated herein by this reference to Exhibit 10.55 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, as filed with the Commission on August 14, 2002 (file no. 1-10962).
10.7	Executive Officer Employment Agreement, effective November 6, 2002, by and between the Company and Patrice Hutin.†
10.8	First Amended Executive Officer Employment Agreement, effective as of June 1, 2002, by and between the Company and Robert A. Penicka, incorporated herein by this reference to Exhibit 10.56 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, as filed with the Commission on August 14, 2002 (file no. 1-10962).
10.9	Amended and Restated Executive Officer Employment Agreement, entered into as of October 1, 2002, by and between the Company and Ian B. Rowden.†
10.10	Executive Officer Employment Agreement, entered into as of September 1, 2000, between the Company and Michael W. McCormick, incorporated herein by this reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, as filed with the Commission on November 14, 2000 (file no. 1-10962).
10.11	Separation Agreement and General Release, made as of August 31, 2002, by and between Michael W. McCormick and the Company.†
10.12	Stock Option Agreement by and between the Company and Charles J. Yash dated as of May 10, 1996, incorporated herein by this reference to Exhibit 10.14 in the Company's Registration Statement on Form S-8, as filed with the Commission on July 11, 1996 (file no. 333-5721).
10.13	Resignation and Consulting Agreement with Mutual Releases, entered into as of May 31, 2001, by and between the Company and Charles J. Yash, incorporated herein by this reference to Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, as filed with the Commission on August 14, 2001 (file no. 1-10962).

10.14	Release by Charles J. Yash, effective May 31, 2001, incorporated herein by this reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, as filed with the Commission on August 14, 2001 (file no. 1-10962).
10.15	Employment Agreement, entered into as of January 1, 2000, between the Company and Bruce Parker, incorporated herein by this reference to Exhibit 10.17 in the Company's Annual Report on Form 10-K for the year ended December 31, 1999, as filed with the Commission on March 31, 2000 (file no. 1-10962).
10.16	Callaway Golf Company Executive Deferred Compensation Plan (as amended and restated, effective August 22, 2000), incorporated herein by this reference to Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, as filed with the Commission on November 14, 2000 (file no. 1-10962).
10.17	Second Amendment to Callaway Golf Company Executive Deferred Compensation Plan, incorporated herein by this reference to Exhibit 10.52 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, as filed with the Commission on May 10, 2002 (file no. 1-10962).
10.18	Callaway Golf Company 1998 Executive Non-Discretionary Bonus Plan, incorporated herein by this reference to Exhibit 10.21 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997, as filed with the Commission on May 15, 1997 (file no. 1-10962).
10.19	Callaway Golf Company 1991 Stock Incentive Plan (as amended and restated August 15, 2000), incorporated herein by this reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 21, 2002 (file no. 1-10962).
10.20	Callaway Golf Company 1995 Employee Stock Incentive Plan (as amended and restated November 7, 2001).†
10.21	Amended and Restated 1996 Stock Option Plan (as amended and restated May 3, 2000), incorporated herein by this reference to Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2000, as filed with the Commission on August 14, 2000 (file no. 1-10962).
10.22	Callaway Golf Company 1998 Stock Incentive Plan (as amended and restated August 15, 2000), incorporated herein by this reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 21, 2002 (file no. 1-10962).
10.23	Callaway Golf Company Non-Employee Directors Stock Option Plan (as amended and restated August 15, 2000), incorporated herein by this reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 21, 2002 (file no. 1-10962).
10.24	Callaway Golf Company 2001 Non-Employee Directors Stock Option, incorporated herein by this reference to Appendix A to the Company's definitive Proxy Statement on Schedule 14A filed with the Commission on March 27, 2000 (file no. 1-10962).
10.25	Indemnification Agreement, dated as of July 1, 1999, by and between Callaway Golf Company and William C. Baker, incorporated herein by this reference to Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).
10.26	Indemnification Agreement, effective June 7, 2001, by and between the Company and Ronald S. Beard, incorporated herein by this reference to Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, as filed with the Commission on November 14, 2001 (file no. 1-10962).
10.27	Indemnification Agreement, dated July 1, 1999, by and between Callaway Golf Company and Vernon E. Jordan, Jr., incorporated herein by this reference to Exhibit 10.29 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).

10.28	Indemnification Agreement, dated July 1, 1999, by and between Callaway Golf Company and Yotaro Kobayashi, incorporated herein by this reference to Exhibit 10.30 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).
10.29	Indemnification Agreement, dated July 1, 1999, by and between Callaway Golf Company and Richard L. Rosenfield, incorporated herein by this reference to Exhibit 10.32 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).
	Other Contracts
10.30	Master Energy Purchase and Sale Agreement and related Confirmation letter, each entered into as of April 12, 2001, by and between Enron Energy Services, Inc. and the Company, incorporated herein by this reference to Exhibit 10.34 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, as filed with the Commission on August 14, 2001 (file no. 1-10962).
10.31	Amended and Restated Credit Agreement, dated as of February 10, 1999, by and among the Company, as Borrower, the other credit parties signatory thereto, as Credit Parties, the Lenders signatory thereto from time to time and General Electric Capital Corporation, as Agent and Lender, incorporated herein by this reference to Exhibit 10.35 to the Company's Current Report on Form 8-K dated February 25, 1999, as filed with the Commission on February 25, 1999 (file no. 1-10962).
10.32	First Amendment to Amended and Restated Credit Agreement, dated as of April 28, 2000, by and among the Company, the other credit parties signatory to the Amended and Restated Credit Agreement, the lenders signatory to this Amendment, and General Electric Capital Corporation, incorporated herein by this reference to Exhibit 10.36 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, as filed with the Commission on May 15, 2000 (file no. 1-10962).
10.33	Second Amendment and Limited Waiver to Amended and Restated Credit Agreement, dated December 29, 2000, by and among the Company, the other credit parties to the Amended and Restated Credit Agreement, the lenders signatory to this Amendment and General Electric Capital Corporation, incorporated herein by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (file no. 1-10962).
10.34	Third Amendment and Limited Waiver to Amended and Restated Credit Agreement, dated as of March 19, 2001, by and among the Company, the other credit parties to the Amended and Restated Credit Agreement, the lenders signatory to this Amendment and General Electric Capital Corporation, incorporated herein by reference to Exhibit 10.38 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, as filed with the Commission on May 15, 2001 (file no. 1-10962).
10.35	Fourth Amendment and Limited Waiver to Amended and Restated Credit Agreement, dated as of December 31, 2001, by and among the Company, the other credit parties to the Amended and Restated Credit Agreement, the lenders signatory to this Amendment and General Electric Capital Corporation.†
10.36	Fifth Amendment and Limited Waiver to Amended and Restated Credit Agreement, dated as of February 25, 2003, by and among the Company, the other credit parties to the Amended and Restated Credit Agreement, the lenders signatory to this Amendment and General Electric Capital Corporation.†
10.37	Receivables Transfer Agreement, dated as of February 10, 1999, by and among Callaway Golf Sales Company and Odyssey Golf, Inc, incorporated herein by this reference to Exhibit 10.39 to the Company's Current Report on Form 8-K dated February 25, 1999, as filed with the Commission on February 25, 1999 (file no. 1-10962).

10.38	Receivables Transfer Agreement, dated as of February 10, 1999, by and among the Company, as Parent Guarantor, Callaway Golf Sales Company, as the CGS Originator and as Servicer, and Golf Funding Corporation, incorporated herein by this reference to Exhibit 10.40 to the Company's Current Report on Form 8-K dated February 25, 1999, as filed with the Commission on February 25, 1999 (file no. 1-10962).
10.39	Receivables Purchase and Servicing Agreement, dated as of February 10, 1999, by and among Golf Funding Corporation, as Seller, Redwood Receivables Corporation, as Purchaser, Callaway Golf Sales Company, as Servicer, and General Electric Capital Corporation, as Operating Agent and Collateral Agent, incorporated herein by this reference to Exhibit 10.41 to the Company's Current Report on Form 8-K dated February 25, 1999, as filed with the Commission on February 25, 1999 (file no. 1-10962).
10.40	First Amendment to Receivables Transfer Agreement, dated as of April 28, 2000, by and among Callaway Golf Sales Company, Callaway Golf Company and Golf Funding Corporation, Redwood Receivables Corporation and General Electric Capital Corporation, incorporated herein by this reference to Exhibit 10.42 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, as filed with the Commission on May 15, 2000 (file no. 1-10962).
10.41	Second Amendment and Limited Waiver to Receivables Transfer Agreement and First Amendment to Annex X, dated December 29, 2000, by and among the Company, Callaway Golf Sales Company, Callaway Golf Funding Corporation, Redwood Receivables Corporation, and General Electric Capital Corporation, incorporated herein by this reference to Exhibit 10.43 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (file no. 1-10962).
10.42	Limited Waiver to Receivables Transfer Agreement, dated as of March 19, 2001, by and among Callaway Golf Funding, the Company, Callaway Golf Sales Company, Redwood Receivables Corporation and General Electric Capital Corporation, incorporated herein by this reference to Exhibit 10.44 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, as filed with the Commission on May 15, 2001 (file no. 1-10962).
10.43	Receivables Purchase Termination and Reconveyance Agreement, dated February 26, 2003, among Golf Funding Corporation, Callaway Golf Sales Company, Redwood Receivables Corporation and General Electric Capital Corporation.†
10.44	Trust Agreement by and between Callaway Golf Company and Sanwa Bank California, as Trustee, for the benefit of participating employees, dated July 14, 1995, incorporated herein by this reference to Exhibit 10.45 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, as filed with the Commission on November 14, 1995 (file no. 1-10962).
10.45	Amendment No. 1 to Trust Agreement, effective as of June 29, 2001, by Callaway Golf Company with the consent of Arrowhead Trust Incorporated, incorporated herein by this reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 21, 2002 (file no. 1-10962).
10.46	Assignment and Assumption Agreement, effective as of April 24, 2000, by and among Callaway Golf Company, Sanwa Bank California and Arrowhead Trust Incorporated, incorporated herein by reference to Exhibit 10.47 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (file no. 1-10962).
10.47	Trademark License Agreement effective as of March 9, 1999, by and between Callaway Golf Company and Callaway Golf Media Ventures, LLC., incorporated herein by this reference to Exhibit 10.51 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, as filed with the Commission on March 31, 1999 (file no. 1-10962).
16.1	Letter dated June 19, 2001 from PricewaterhouseCoopers LLP to the Commission, incorporated herein by this reference to Exhibit 16.1 to the Company's Current Report on Form 8-K dated June 15, 2002, as filed with the Commission on June 20, 2001 (file no. 1-10962).
16.2	Letter dated March 22, 2002 from Arthur Andersen LLP to the Commission, incorporated herein by this reference to Exhibit 16.1 to the Company's Current Report on Form 8-K, dated March 22, 2002, as filed with the Commission on March 28, 2002 (file no. 1-10962).

16.3	Letter dated December 19, 2002 from KPMG LLP to the Commission, incorporated herein by this reference to Exhibit 16.1 to the Company's Current Report on Form 8-K, dated December 12, 2002, as filed with the Commission on December 19, 2002 (file no. 1-10962).
21.1	List of Subsidiaries.†
23.1	Consent of Deloitte & Touche LLP.†
23.2	Note Regarding Arthur Andersen LLP.†
23.3	Consent of PricewaterhouseCoopers LLP.†
24.1	Form of Power of Attorney.†
99.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.†
99.2	Letter dated March 21, 2002 from the Company to the Commission, incorporated herein by this reference to Exhibit 99.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 21, 2002 (file no. 1-10962).

† Included in this Report

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

The Company filed a Current Report on Form 8-K, dated December 12, 2002, as filed with the Commission on December 19, 2002, reporting a disagreement with the Company's auditors and a change in auditors.

The Company filed a Current Report on Form 8-K, dated December 3, 2002, as filed with the Commission on the same date, reporting the scheduled date for the Company's 2003 annual meeting of shareholders and the deadline for submitting shareholder proposals. In addition, the Company included an update to its corporate governance policies and practices.

SIGNATURES

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

CALLAWAY GOLF COMPANY

By: /s/ RONALD A. DRAPEAU

Ronald A. Drapeau
Chairman, President and Chief Executive Officer

Date: March 14, 2003

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

Signature	Title	Date
Principal Executive Officer:		
/s/ RONALD A. DRAPEAU Ronald A. Drapeau	Chairman of the Board, President and Chief Executive Officer	March 14, 2003
Principal Financial Officer:		
/s/ BRADLEY J. HOLIDAY Bradley J. Holiday	Executive Vice President and Chief Financial Officer	March 14, 2003
Principal Accounting Officer:		
/s/ DENNIS R. SECOR Dennis R. Secor	Vice President, Controller and Chief Accounting Officer	March 14, 2003
Directors:		
* William C. Baker	Director	March 14, 2003
* Ronald S. Beard	Director	March 14, 2003
* Vernon E. Jordan, Jr.	Director	March 14, 2003
* Yotaro Kobayashi	Director	March 14, 2003
* Richard L. Rosenfield	Director	March 14, 2003

By: /s/ BRADLEY J. HOLIDAY

Bradley J. Holiday,
Attorney-in-fact

CERTIFICATIONS

Each of the undersigned, in his capacity as the Chief Executive Officer and Chief Financial Officer of Callaway Golf Company, as the case may be, provides the following certifications required by 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of The Sarbanes-Oxley Act of 2002, and 17 C.F.R. § 240.13a-14.

Certification of Chief Executive Officer

I, Ronald A. Drapeau, certify that:

1. I have reviewed this annual report on Form 10-K of Callaway Golf Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ RONALD A. DRAPEAU

Ronald A. Drapeau
Chairman, President and
Chief Executive Officer

Dated: March 14, 2003

Certification of Chief Financial Officer

I, Bradley J. Holiday, certify that:

1. I have reviewed this annual report on Form 10-K of Callaway Golf Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ BRADLEY J. HOLIDAY

Bradley J. Holiday
Executive Vice President and Chief Financial Officer

Dated: March 14, 2003

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CALLAWAY GOLF COMPANY

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

	December 31, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 108,452	$ 84,263
Marketable securities	—	6,422
Accounts receivable, net	63,867	48,653
Inventories, net	151,760	167,760
Deferred taxes	34,519	27,266
Other current assets	10,429	20,327
Total current assets	369,027	354,691
Property, plant and equipment, net	167,340	133,250
Intangible assets, net	103,115	104,467
Goodwill	18,202	16,846
Deferred taxes	5,216	20,282
Other assets	16,945	18,066
	$ 679,845	$ 647,602
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 61,720	$ 38,261
Accrued employee compensation and benefits	23,168	25,301
Accrued warranty expense	13,464	34,864
Note payable, current portion	3,160	2,374
Income taxes payable	7,649	1,074
Total current liabilities	109,161	101,874
Long-term liabilities:		
Deferred compensation	7,375	8,297
Energy derivative valuation account	19,922	19,922
Note payable, net of current portion	—	3,160
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at December 31, 2002 and 2001	—	—
Common Stock, $.01 par value, 240,000,000 shares authorized, 83,577,427 shares and 82,694,173 shares issued at December 31, 2002 and 2001, respectively	836	827
Additional paid-in capital	371,496	419,541
Unearned compensation	(15)	(211)
Retained earnings	439,454	388,609
Accumulated other comprehensive loss	(3,847)	(4,399)
Less: Grantor Stock Trust held at market value, 10,128,723 shares and 10,764,690 shares at December 31, 2002 and 2001, respectively	(134,206)	(206,144)
	673,718	598,223
Less: Common Stock held in treasury, at cost, 7,772,378 shares and 4,939,000 shares at December 31, 2002 and 2001, respectively	(130,331)	(83,874)
Total shareholders' equity	543,387	514,349
	$ 679,845	$ 647,602

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

CALLAWAY GOLF COMPANY

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

	Year Ended December 31,					
	2002		2001		2000	
Net sales	$792,064	100%	$816,163	100%	$837,627	100%
Cost of sales	393,068	50%	411,585	50%	440,119	53%
Gross profit	398,996	50%	404,578	50%	397,508	47%
Selling expenses	200,153	25%	188,306	23%	170,541	20%
General and administrative expenses	56,580	7%	71,058	9%	70,333	8%
Research and development expenses	32,182	4%	32,697	4%	34,579	4%
Total operating expenses	288,915	36%	292,061	36%	275,453	33%
Income from operations	110,081	14%	112,517	14%	122,055	15%
Interest and other income, net	3,250		7,149		8,791	
Interest expense	(1,660)		(1,552)		(1,524)	
Unrealized energy derivative losses	—		(19,922)		—	
Income before income taxes and cumulative effect of accounting change	111,671	14%	98,192	12%	129,322	16%
Income taxes	42,225		39,817		47,366	
Income before cumulative effect of accounting change	69,446		58,375		81,956	
Cumulative effect of accounting change	—		—		(957)	
Net income	$ 69,446	9%	$ 58,375	7%	$ 80,999	10%
Earnings per common share:						
Basic						
Income before cumulative effect of accounting change	$ 1.04		$ 0.84		$ 1.17	
Cumulative effect of accounting change	—		—		(0.01)	
	$ 1.04		$ 0.84		$ 1.16	
Diluted						
Income before cumulative effect of accounting change	$ 1.03		$ 0.82		$ 1.14	
Cumulative effect of accounting change	—		—		(0.01)	
	$ 1.03		$ 0.82		$ 1.13	
Common equivalent shares:						
Basic	66,517		69,809		69,946	
Diluted	67,274		71,314		71,412	

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

CALLAWAY GOLF COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 69,446	$ 58,375	$ 80,999
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	37,640	37,467	40,249
Loss on disposal of assets	1,168	1,824	342
Loss on purchase of leased equipment	2,318	—	—
Tax benefit from exercise of stock options	5,479	14,520	6,806
Non-cash compensation	314	342	2,157
Non-cash energy derivative losses	—	19,922	—
Net non-cash foreign currency hedging gains	(4,238)	(4,748)	(1,410)
Net gains from sale of marketable securities	(37)	—	—
Deferred taxes	11,357	1,732	4,906
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	(9,279)	3,182	(9,047)
Inventories, net	21,785	(37,147)	(39,402)
Other assets	10,202	5,630	(3,074)
Accounts payable and accrued expenses	11,579	3,936	2,638
Accrued employee compensation and benefits	(2,383)	2,848	1,623
Accrued warranty expense	(21,400)	(4,499)	3,258
Income taxes payable	6,185	(1,644)	4,088
Accrued restructuring costs	—	—	(1,379)
Deferred compensation	(922)	(1,587)	(1,691)
Net cash provided by operating activities	139,214	100,153	91,063
Cash flows from investing activities:			
Capital expenditures	(73,502)	(35,274)	(28,386)
Acquisitions, net of cash acquired	—	(5,758)	(444)
Investment in marketable securities	—	(6,422)	—
Proceeds from sale of marketable securities	6,998	—	—
Cash paid for investment	(2,000)	—	—
Proceeds from sale of capital assets	871	4,629	244
Net cash used in investing activities	(67,633)	(42,825)	(28,586)
Cash flows from financing activities:			
Payments on note payable	(2,374)	(1,168)	—
Issuance of Common Stock	18,305	50,651	28,233
Acquisition of Treasury Stock	(46,457)	(104,049)	(80,469)
Dividends paid, net	(18,601)	(19,447)	(19,538)
Proceeds from sale-leaseback of equipment	—	—	1,268
Net cash used in financing activities	(49,127)	(74,013)	(70,506)
Effect of exchange rate changes on cash and cash equivalents	1,735	(1,648)	(1,977)
Net increase (decrease) in cash and cash equivalents	24,189	(18,333)	(10,006)
Cash and cash equivalents at beginning of year	84,263	102,596	112,602
Cash and cash equivalents at end of year	$108,452	$ 84,263	$102,596
Supplemental disclosures:			
Marketable securities received upon demutualization of insurance provider	$ 540	$ —	$ —
Unrealized loss on marketable securities	$ (92)	$ —	$ —
Issuance of note payable for acquisition of intangible assets	$ —	$ 6,702	$ —
Cancellation of restricted Common Stock	$ —	$ 992	$ 217
Common Stock issued for acquisition of intangible assets	$ —	$ 516	$ —
Cash paid for interest and fees	$ (953)	$ (977)	$ (805)
Cash paid for income taxes	$ (16,628)	$ (25,738)	$ (29,245)

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

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CALLAWAY GOLF COMPANY

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

	Common Stock		Additional			Accumulated Other	Grantor	Treasury Stock			
	Shares	Amount	Paid-in Capital	Unearned Compensation	Retained Earnings	Comprehensive Loss	Stock Trust	Shares	Amount	Total	Comprehensive Income
Balance, December 31, 1999	76,302	$763	$307,329	$(2,784)	$288,090	$ 280	$ (93,744)	—	$ —	$ 499,934	
Exercise of stock options	2,252	23	23,932	—	—	—	—	—	—	23,955	
Tax benefit from exercise of stock options	—	—	6,806	—	—	—	—	—	—	6,806	
Cancellation of Restricted Common Stock	(7)	—	(217)	217	—	—	—	—	—	—	
Acquisition of Treasury Stock	—	—	—	—	—	—	—	(4,815)	(80,469)	(80,469)	
Compensatory stock and stock options	—	—	804	1,353	—	—	—	—	—	2,157	
Employee stock purchase plan	412	4	4,274	—	—	—	—	—	—	4,278	
Cash dividends	—	—	—	—	(21,022)	—	—	—	—	(21,022)	
Dividends on shares held by Grantor Stock Trust	—	—	—	—	1,484	—	—	—	—	1,484	
Adjustment of Grantor Stock Trust shares to market value	—	—	4,969	—	—	—	(4,969)	—	—	—	
Equity adjustment from foreign currency translation	—	—	—	—	—	(5,422)	—	—	—	(5,422)	$ (5,422)
Unrealized loss on cash flow hedges, net of tax	—	—	—	—	—	(954)	—	—	—	(954)	(954)
Other	—	—	(132)	—	130	—	—	—	—	(2)	
Net income	—	—	—	—	80,999	—	—	—	—	80,999	80,999
Balance, December 31, 2000	78,959	$790	$347,765	$(1,214)	$349,681	$(6,096)	$ (98,713)	(4,815)	$ (80,469)	$ 511,744	$74,263
Exercise of stock options	3,484	34	42,621	—	—	—	2,375	—	—	45,030	
Tax benefit from exercise of stock options	—	—	14,520	—	—	—	—	—	—	14,520	
Cancellation of Restricted Common Stock	(32)	—	(992)	992	—	—	—	—	—	—	
Acquisition of Treasury Stock	—	—	—	—	—	—	—	(6,001)	(104,049)	(104,049)	
Compensatory stock and stock options	—	—	331	11	—	—	—	—	—	342	
Employee stock purchase plan	283	3	2,244	—	—	—	3,374	—	—	5,621	
Shares issued for intangible assets	—	—	(129)	—	—	—	—	40	645	516	
Cash dividends	—	—	—	—	(21,717)	—	—	—	—	(21,717)	
Dividends on shares held by Grantor Stock Trust	—	—	—	—	2,270	—	—	—	—	2,270	
Addition to Grantor Stock Trust	—	—	(9,717)	—	—	—	(90,282)	5,837	99,999	—	
Adjustment of Grantor Stock Trust shares to market value	—	—	22,898	—	—	—	(22,898)	—	—	—	
Equity adjustment from foreign currency translation	—	—	—	—	—	(3,297)	—	—	—	(3,297)	$ (3,297)
Unrealized gain on cash flow hedges, net of tax	—	—	—	—	—	4,994	—	—	—	4,994	4,994
Net income	—	—	—	—	58,375	—	—	—	—	58,375	58,375
Balance, December 31, 2001	82,694	$827	$419,541	$ (211)	$388,609	$(4,399)	$(206,144)	(4,939)	$ (83,874)	$ 514,349	$60,072
Exercise of stock options	879	9	10,067	—	—	—	2,950	—	—	13,026	
Tax benefit from exercise of stock options	—	—	5,479	—	—	—	—	—	—	5,479	
Acquisition of Treasury Stock	—	—	—	—	—	—	—	(2,833)	(46,457)	(46,457)	
Compensatory stock and stock options	—	—	118	196	—	—	—	—	—	314	
Employee stock purchase plan	4	—	(2,590)	—	—	—	7,869	—	—	5,279	
Cash dividends	—	—	—	—	(21,502)	—	—	—	—	(21,502)	
Dividends on shares held by Grantor Stock Trust	—	—	—	—	2,901	—	—	—	—	2,901	
Adjustment of Grantor Stock Trust shares to market value	—	—	(61,119)	—	—	—	61,119	—	—	—	
Equity adjustment from foreign currency	—	—	—	—	—	5,602	—	—	—	5,602	$ 5,602

translation											
Unrealized loss on cash flow hedges, net of tax	—	—	—	—	—	(4,958)	—	—	—	(4,958)	(4,958)
Unrealized loss on marketable securities, net of tax	—	—	—	—	—	(92)	—	—	—	(92)	(92)
Net income	—	—	—	—	69,446	—	—	—	—	69,446	69,446
Balance, December 31, 2002	83,577	$836	$371,496	$ (15)	$439,454	$(3,847)	$(134,206)	(7,772)	$(130,331)	$ 543,387	$69,998

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

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Company

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

Note 2. Significant Accounting Policies

Principles of Consolidation

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

Acquisitions

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Examples of such estimates include provisions for warranty, uncollectable accounts receivable, inventory obsolescence, market value estimates of derivative instruments and recoverability of long-lived assets. Actual results may materially differ from these estimates. On an on-going basis, the Company reviews its estimates to ensure that the estimates appropriately reflect changes in its business or as new information becomes available.

Revenue Recognition

Sales are recognized net of an allowance for sales returns and sales programs when both title and risk of loss transfer to the customer. The Company adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101") in the fourth quarter of 2000 with an effective date of January 1, 2000. As a result of the adoption of SAB No. 101, the Company recognized a cumulative effect adjustment of $957,000 in the Consolidated Statement of Operations for the year ended December 31, 2000 to reflect the change in the Company's revenue recognition policy from shipping point to the time both legal and practical risk of loss transfers to the customer.

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

Royalty income is recorded as underlying product sales occur, subject to certain minimums, in accordance with the related licensing arrangements (Note 14).

Warranty Policy

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

	Year Ended December 31,		
	2002	2001	2000
		(In thousands)	
Beginning balance	$ 34,864	$ 39,363	$ 36,105
Provision[(1)]	(6,987)	9,527	17,675
Claims paid/costs incurred	(14,413)	(14,026)	(14,417)
Ending balance	$ 13,464	$ 34,864	$ 39,363

(1) In the third quarter of 2002, the Company changed its methodology of estimating warranty accruals and reduced its warranty reserve by approximately $17,000,000. The change in methodology has been accounted for as a change in accounting principle inseparable from a change in estimate (Note 3).

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, trade receivables and payables, forward foreign currency exchange contracts (Note 7) and its credit facilities (Note 6). The carrying amounts of these instruments approximate fair value because of their short-term maturities and variable interest rates. During 2001, the Company also entered into an energy contract accounted for as a derivative instrument that has been recorded based on estimated fair values through the effective date of termination (see Notes 7 and 12).

Advertising Costs

The Company advertises primarily through television and print media. The Company's policy is to expense advertising costs, including production costs, as incurred. Advertising expenses for 2002, 2001 and 2000 were $44,001,000, $44,707,000 and $35,100,000, respectively.

Research and Development Costs

Research and development costs are expensed as incurred.

Foreign Currency Translation and Transactions

The Company's foreign subsidiaries utilize their local currency as their functional currency. The accounts of these foreign subsidiaries have been translated into United States dollars using the current exchange rate at the balance sheet date for assets and liabilities and the average exchange rate for the period for revenues and expenses. Cumulative translation gains or losses are recorded as accumulated other comprehensive income in shareholders' equity. Gains or losses resulting from transactions that are made in a currency different from the functional currency are recognized in earnings as they occur or, for hedging contracts, when the underlying hedged transaction affects earnings. The Company recorded transaction gains of $2,046,000 and $2,533,000 in 2002 and 2001, respectively, and transaction losses of $147,000 in 2000, in interest and other income, net.

Derivatives and Hedging

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." As amended, SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities and requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in income or other comprehensive income, depending on whether the derivatives are designated as hedges and, if so, the types and effectiveness of hedges.

In the fourth quarter of 2000, the Company began hedging a portion of its anticipated intercompany sales of inventory denominated in foreign currencies using forward foreign currency exchange rate contracts. The purpose of these derivative instruments is to minimize the variability of cash flows associated with the anticipated transactions being hedged. As changes in foreign currency rates impact the United States dollar value of anticipated transactions, the fair value of the forward contracts also changes, providing a synthetic offset to foreign currency rate fluctuations. During the second quarter of 2001, the Company entered into a derivative commodity instrument as part of a comprehensive strategy to ensure the uninterrupted supply of electricity while capping electricity costs in the volatile California energy market. Additional information about the Company's use of derivative instruments is presented in Notes 7 and 12.

Earnings Per Common Share

Basic earnings per common share is calculated by dividing net income for the period by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income for the period by the weighted-average number of common shares outstanding during the period, increased by potentially dilutive common shares ("dilutive securities") that were outstanding during the period. Dilutive securities include shares owned by the Callaway Golf Company Grantor Stock Trust, options issued pursuant to the Company's stock option plans, potential shares related to the Employee Stock Purchase Plan and rights to purchase preferred shares under the Callaway Golf Company Shareholder Rights Plan (Note 9). Dilutive securities related to the Callaway Golf Company Grantor Stock Trust and the Company's stock option plans are included in the calculation of diluted earnings per common share using the treasury stock method. Under the treasury stock method, the dilutive securities related to the Callaway Golf Company Grantor Stock Trust do not have any impact upon the diluted earnings per common share. Dilutive securities related to the Employee Stock Purchase Plan are calculated by dividing the average withholdings during the period by 85% of the lower of the offering period price or the market value at the end

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

of the period. The dilutive effect of rights to purchase preferred shares under the Callaway Golf Shareholder Rights Plan have not been included as dilutive securities because the conditions necessary to cause these rights to be exercisable were not met. A reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations for the years ended December 31, 2002, 2001 and 2000 is presented in Note 8.

Cash and Cash Equivalents

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

Marketable Securities and Other Investments

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

Marketable securities at December 31, 2002 were $26,000 and consisted primarily of investments in public corporations, which are classified as available-for-sale securities within other assets. Marketable securities at December 31, 2001 were classified as available-for-sale securities and included $6,422,000 of short-term investments related to Company-owned life insurance and $118,000 of long-term investments in public corporations. Proceeds from the sale of available-for-sale securities for the year ended December 31, 2002 were $6,998,000 and there were no proceeds in 2001 and 2000. For the years ended December 31, 2002, 2001 and 2000, the Company recorded $95,000, $1,597,000 and $57,000, respectively of realized gains on available-for-sale securities sold and unrealized and realized gains on trading securities in interest and other income, net.

Inventories

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

Property, Plant and Equipment

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

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

Normal repairs and maintenance costs are expensed as incurred. Expenditures that materially increase values, change capacities or extend useful lives are capitalized. Replacements are capitalized and the property, plant, and equipment accounts are relieved of the items being replaced. The related costs and accumulated depreciation of disposed assets are eliminated and any resulting gain or loss on disposition is included in income. Construction in process consists primarily of store display equipment not yet assembled and installed, in-process internally developed software and unfinished molds that have not yet been placed in service.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

In September 2000, the Company completed an extensive upgrade of its enterprise-wide business software system to a more current release. The upgrade included improved functionalities and provides 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, in fiscal 2000, the Company extended the estimated useful life of its business system by three years. For the years ended December 31, 2002, 2001 and 2000, the effect of this change in accounting estimate reduced depreciation expense by $2,010,000, $3,892,000 and $1,319,000, respectively, and increased net income by $1,250,000, $2,314,000 and $791,000, respectively. The resulting increase in net income increased the Company’s earnings per diluted share by $0.02, $0.03 and $0.01 for the years ended December 31, 2002, 2001 and 2000, respectively.

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

Long-Lived Assets

In August 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” SFAS No. 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121 but retains SFAS No. 121’s fundamental provisions for (a) recognition/ measurement of impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS No. 144 also supersedes the accounting/reporting provisions of Accounting Principles Board (“APB”) Opinion No. 30 for segments of a business to be disposed of but retains APB Opinion No. 30’s requirement to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS No. 144 became effective for the Company beginning January 1, 2002. Adoption of SFAS No. 144 as of January 1, 2002 did not have a material impact on the Company’s results of operations or financial position.

The Company assesses potential impairments of its long-lived assets whenever events or changes in circumstances indicate that the asset’s carrying value may not be recoverable. An impairment loss would be recognized when the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group).

Goodwill and Intangible Assets

Goodwill and intangible assets consist primarily of goodwill, trade name, trademark, trade dress, and patents resulting from the 1997 purchase of substantially all of the assets and certain liabilities of Odyssey Sports, Inc. and goodwill associated with the purchase of certain foreign distributors. During 2001 and 2000, goodwill and intangible assets were amortized using the straight-line method over periods ranging from three to 40 years.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, acquired intangible assets must be separately identified. Goodwill and other intangible assets with indefinite lives are not amortized, but are reviewed at least annually for impairment. Acquired intangible assets with definite lives are amortized over their individual useful lives. In addition to goodwill, the Company's intangible assets with indefinite lives consist of trade name, trademark and trade dress. In accordance with SFAS No. 142, the goodwill and other intangible assets with indefinite lives that were being amortized over periods ranging from five to 40 years follow the non-amortization approach beginning January 1, 2002. Patents and other intangible assets are amortized using the straight-line method over periods ranging from three to sixteen years (see Note 5).

Stock-Based Compensation

The Company has stock-based employee compensation plans, which are described in Note 9. The Company accounts for its stock-based employee compensation plans using the recognition and measurement principles (intrinsic value method) of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. For the years ended December 31, 2002, 2001 and 2000, the Company recorded compensation expense of $184,000, $301,000 and $401,000, in net income as a result of the restricted stock awards granted in 1998. All other employee stock-based awards were granted with an exercise price equal to the market value of the underlying common stock on the date of grant and no compensation cost is reflected in net income from operations for those awards. Pro forma disclosures of net income and earnings per share, as if the fair value-based method had been applied in measuring stock-based employee compensation expense, are presented in Note 9. Compensation expense for non-employee stock-based compensation awards is measured using the fair-value method.

Income Taxes

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

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

Interest and Other Income, Net

Interest and other income, net includes royalty income, gains and losses on foreign currency transactions, interest income and gains and losses on investments to fund the deferred compensation plan, gains on the sale of marketable securities and losses generated from the sale of the Company's excess energy supply. The components of interest and other income, net are as follows:

	Year Ended December 31,		
	2002	2001	2000
		(In thousands)	
Royalty income	$1,016	$ 3,231	$2,669
Net foreign currency gains (losses)	2,046	2,533	(147)
Net interest income and gains (losses) on deferred compensation plan assets	156	1,462	6,157
Gain on sale of securities	95	1,597	57
Net losses on excess energy sales	—	(2,052)	—
Other	(63)	378	55
	$3,250	$ 7,149	$8,791

Comprehensive Income

Components of comprehensive income are reported in the financial statements in the period in which they are recognized. The components of comprehensive income for the Company include net income, unrealized gains or losses on cash flow hedges, foreign currency translation adjustments and unrealized gains or losses on marketable securities. Since the Company has met the indefinite reversal criteria, it does not accrue income taxes on foreign currency translation adjustments. During 2002, the Company recorded $4,958,000, net of tax benefit of $2,829,000, related to net unrealized losses on cash flow hedges. During 2002, gains of $171,000 were reclassified to earnings as a result of the discontinuance of cash flow hedges. The components of accumulated other comprehensive income are as follows:

	Year Ended December 31,		
	2002	2001	2000
		(In thousands)	
Unrealized gains (losses) on cash flow hedges	$ (918)	$ 4,040	$ (954)
Equity adjustment from foreign currency translation	(2,837)	(8,439)	(5,142)
Unrealized losses on marketable securities	(92)	—	—
	$(3,847)	$(4,399)	$(6,096)

Segment Information

The Company utilizes the management approach to report segment information. The Company's operating segments are organized on the basis of products and consist of Golf Clubs and Golf Balls. The Golf Clubs segment primarily consists of Callaway Golf titanium and stainless steel metal woods and irons, Callaway Golf and Odyssey putters and wedges and golf-related accessories. The Golf Balls segment consists of golf balls that are designed, manufactured and sold by the Company. The Company also discloses information about geographic areas. This information is presented in Note 13.

Diversification of Credit Risk

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

The Company may invest its excess cash in money market accounts and U.S. Government securities and has established guidelines relative to diversification and maturities in an effort to maintain safety and liquidity.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

The Company operates in the golf equipment industry and primarily sells its products to golf equipment retailers, directly and through wholly-owned domestic and foreign subsidiaries, and to foreign distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from these customers. The Company maintains reserves for estimated credit losses, which it considers adequate to cover any such losses. Furthermore, managing customer-related credit risk is more difficult in regions outside of the United States. During 2002, 2001 and 2000, approximately 45%, 46% and 46%, respectively, of the Company's net sales were made in regions outside of the United States. An adverse change in either economic conditions abroad or in the Company's relationship with significant foreign retailers could significantly increase the Company's credit risk related to its international operations.

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

During the second quarter of 2001, the Company entered into a long-term, fixed-price, fixed-capacity, energy supply contract as part of a comprehensive strategy to ensure the uninterrupted supply of energy while capping electricity costs in the volatile California energy market. During the fourth quarter of 2001, the energy supplier filed for bankruptcy protection and the Company notified the energy supplier that, among other things, the energy supplier was in default of the energy supply contract and that based upon such default, and for other reasons, the Company was terminating the energy supply contract. As a result, the Company began procuring energy from an alternative source at current market rates.

Recent Accounting Pronouncements

In January 2003, the FASB issued Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities." In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The consolidation requirements of FIN No. 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company believes that the adoption of FIN No. 46 will not have a material impact on its financial position or results of operations because the Company has no variable interest entities.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company is required to follow the prescribed disclosure format and has provided the additional disclosures required by SFAS No. 148 for the year ended December 31, 2002 (see Note 9) and must also provide the disclosures in its quarterly reports containing condensed financial statements for interim periods beginning with the quarterly period ending March 31, 2003.

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

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of such costs covered by the standard include lease termination costs and certain employee severance costs associated with a restructuring, discontinued operation, plant closing or other exit or disposal activity. SFAS No. 146 is effective prospectively for exit and disposal activities initiated after December 31, 2002. As the provisions of SFAS No. 146 are to be applied prospectively after its adoption date, the Company cannot determine the potential effects that the adoption of SFAS No. 146 will have on its results of operations or financial position.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." SFAS No. 145 also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers." SFAS No. 145 amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 shall be adopted on January 1, 2003. The provisions related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. All other provisions of SFAS No. 145 are effective for financial statements issued after May 15, 2002. The adoption of SFAS No. 145 has not had and is not expected to have a material impact on the Company's results of operations or financial position.

Reclassifications

Certain prior period amounts have been reclassified to conform with the current period presentation (Note 5).

Note 3. Change in Accounting Estimate

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

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

Beginning in the second quarter of 2001, the Company began to compile data that illustrated the timing of warranty claims in relation to product life cycles. In the third quarter of 2002, the Company determined it had gathered sufficient data and concluded it should enhance its warranty accrual estimation methodology to utilize the additional data. The analysis of the data, in management's judgment, provided management with more insight into timing of claims and demonstrated that some product failures are more likely to occur early in a product's life cycle while other product failures occur in a more linear fashion over the product's life cycle. As a result of its analysis of the recently collected additional information, the Company believes it has gained better insight and improved judgment to more accurately project the ultimate failure rates of its products. As a result of this refinement in its methodology, the Company concluded that it should change its methodology of estimating warranty accruals and reduce its warranty reserve by approximately $17,000,000. The $17,000,000 reduction is recorded in cost of sales and favorably impacted gross profit as a percentage of net sales by 2 percentage points for the year ended December 31, 2002. The change in methodology has been accounted for as a change in accounting principle inseparable from a change in estimate.

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

	Year Ended December 31,		
	2002	2001	2000
		(In thousands, except per share amounts)	
Reported net income	$ 69,446	$58,375	$80,999
Non-cash warranty reserve adjustment, net of tax	(10,589)	—	—
Adjusted net income	$ 58,857	$58,375	$80,999
Basic earnings per share:			
Reported net income	$ 1.04	$ 0.84	$ 1.16
Non-cash warranty reserve adjustment, net of tax	(0.16)	—	—
Adjusted net income	$ 0.88	$ 0.84	$ 1.16
Diluted earnings per share:			
Reported net income	$ 1.03	$ 0.82	$ 1.13
Non-cash warranty reserve adjustment, net of tax	(0.16)	—	—
Adjusted net income	$ 0.87	$ 0.82	$ 1.13

Note 4. Selected Financial Statement Information

	December 31, 2002	December 31, 2001
	(In thousands)	
Accounts receivable, net:		
Trade accounts receivable	$ 69,341	$ 53,810
Allowance for doubtful accounts	(5,474)	(5,157)
	$ 63,867	$ 48,653
Inventories, net:		
Raw materials	$ 63,953	$ 67,336
Work-in-process	2,550	2,179
Finished goods	102,018	105,381
	168,521	174,896
Reserve for excess and obsolescence	(16,761)	(7,136)
	$ 151,760	$ 167,760
Property, plant and equipment, net:		
Land	$ 10,533	$ 10,533
Buildings and improvements	89,630	84,687
Machinery and equipment	114,635	67,329
Furniture, computers and equipment	79,891	65,300
Production molds	26,059	31,371
Construction-in-process	5,537	7,025
	326,285	266,245
Accumulated depreciation	(158,945)	(132,995)
	$ 167,340	$ 133,250
Accounts payable and accrued expenses:		
Accounts payable	$ 18,544	$ 11,541
Accrued expenses	26,486	16,112
Accrued sales programs	16,690	10,608
	$ 61,720	$ 38,261
Accrued employee compensation and benefits:		
Accrued payroll and taxes	$ 16,015	$ 19,313
Accrued vacation and sick pay	6,172	5,068
Accrued commissions	981	920
	$ 23,168	$ 25,301

Note 5. Goodwill and Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, “Goodwill and Other Intangible Assets.” As a result of adopting SFAS No. 142, the Company’s goodwill and certain intangible assets are no longer amortized, but are subject to an annual impairment test. In addition, goodwill of $16,846,000 was reclassified from intangible assets, net and separately reported in the accompanying balance sheet as of December 31, 2001. The following sets forth the intangible assets by major asset class:

	Useful Life (Years)	December 31, 2002			December 31, 2001		
		Gross	Accumulated Amortization	Net Book Value	Gross	Accumulated Amortization	Net Book Value
				(In thousands)			
Non-Amortizing							
Trade name[1]		$ 62,013	$ —	$ 62,013	$ 69,629	$ 7,616	$ 62,013
Trademark and trade dress[1]		26,577	—	26,577	29,841	3,264	26,577
Amortizing patents and other	3-16	20,224	5,699	14,525	22,067	6,190	15,877
Total intangible assets		$108,814	$5,699	$103,115	$121,537	$17,070	$104,467

(1) Acquired during acquisition transactions.

Aggregate amortization expense on intangible assets was approximately $1,683,000 for the year ended December 31, 2002. Amortization expense in each of the next five fiscal years and beyond is expected to be incurred as follows:

	(In thousands)
2003	$ 1,487
2004	1,487
2005	1,472
2006	1,343
2007	1,341
Thereafter	7,395
	$14,525

In accordance with SFAS No. 142, the Company has completed the transitional impairment tests and fair value analysis for goodwill and other intangible assets, respectively, and there were no impairments or impairment indicators present and no loss was recorded during the year ended December 31, 2002. Changes in goodwill during the year ended December 31, 2002 were due to foreign currency fluctuations.

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

	Year Ended December 31,		
	2002	2001	2000
		(In thousands, except for per share)	
Reported net income	$69,446	$58,375	$80,999
Trade name amortization	—	1,044	1,044
Trademark and trade dress amortization	—	448	448
Goodwill amortization	—	2,153	1,487
Adjusted net income	$69,446	$62,020	$83,978
Basic earnings per share:			
Reported net income	$ 1.04	$ 0.84	$ 1.16
Trade name amortization	—	0.01	0.01
Trademark and trade dress amortization	—	0.01	0.01
Goodwill amortization	—	0.03	0.02
Adjusted basic earnings per share	$ 1.04	$ 0.89	$ 1.20
Diluted earnings per share:			
Reported net income	$ 1.03	$ 0.82	$ 1.13
Trade name amortization	—	0.01	0.02
Trademark and trade dress amortization	—	0.01	0.01
Goodwill amortization	—	0.03	0.02
Adjusted diluted earnings per share	$ 1.03	$ 0.87	$ 1.18

Note 6. Debt

The Company has a revolving credit facility of up to $120,000,000 (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 (i) the London Interbank Offering Rate (“LIBOR”) plus a margin or (ii) 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 Company’s right to borrow under this facility is subject to a borrowing base formula and certain other limitations. As of December 31, 2002, there were no borrowings outstanding under the Amended Credit Agreement.

At December 31, 2002, in addition to the Amended Credit Agreement, the Company also had an accounts receivable securitization facility (the “Accounts Receivable Facility”). Under this facility the Company could sell its accounts receivable through its subsidiary (Golf Funding) to a securitization company on an ongoing basis, which could yield proceeds of up to $80,000,000, subject to meeting certain availability requirements under a borrowing base formula and other limitations. As of December 31, 2002, no amount was outstanding under the Accounts Receivable Facility. In February 2003, the Company terminated this facility.

Fees incurred in connection with these facilities are recorded in interest expense. At the time the Company entered into these facilities, the Company paid certain fees, including an origination fee, which are amortized over the five year term of the facilities. The amortization of these fees is approximately

$556,000 per year. The Company also paid unused facility fees for each of the facilities in the amount of approximately $300,000 per year.

Both the Amended Credit Agreement and the Accounts Receivable Facility include certain restrictions, including restrictions on the amount of dividends the Company can pay and the amount of its own stock the Company can repurchase. These facilities also required the Company to maintain certain minimum financial ratios, including a fixed charge coverage ratio. At September 30, 2002, the Company was not in compliance with the fixed charge coverage ratio. The noncompliance with this ratio resulted from the Company's purchase of its previously leased golf ball manufacturing equipment during the third quarter. Excluding the golf ball equipment purchase, the Company would have been in compliance with the fixed charge coverage ratio at September 30, 2002. At December 31, 2002, the Company achieved a fixed charge coverage ratio in excess of the minimum requirements prescribed by the credit facilities. In February 2003, the Amended Credit Agreement was amended to exclude the golf ball equipment purchase from the calculation of the fixed charge coverage ratio and the Company obtained a waiver for prior non-compliance. Both of the credit facilities were scheduled to expire in February 2004. The Company therefore began reviewing what type of back-up or other financing arrangements it would need upon expiration or termination of these facilities. As part of this review, the Company determined that it would not need the Accounts Receivable Facility and therefore in February 2003 terminated the Accounts Receivable Facility.

In April 2001, the Company entered into a note payable in the amount of $7,500,000 as part of a licensing agreement for patent rights. The unsecured, interest-free note payable matures on December 31, 2003 and is payable in quarterly installments. The total amount payable in 2003 is $3,300,000. The present value of the note payable at issuance totaled $6,702,000 using an imputed interest rate of approximately 7%. The Company recorded interest expense of $326,000 and $332,000 for the years ended December 31, 2002 and 2001, respectively.

Note 7. Derivatives and Hedging

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

Foreign Currency Exchange Contracts

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

At December 31, 2002, 2001 and 2000, the notional amounts of the Company’s foreign exchange contracts were approximately $134,782,000, $156,961,000 and $118,236,000, respectively. Of the total contracts outstanding at December 31, 2002, 2001 and 2000, notional amounts of approximately $84,843,000, $122,550,000 and $107,779,000, respectively, were designated as cash flow hedges. The Company estimates the fair values of derivatives based on quoted market prices or pricing models using current market rates, and records all derivatives on the balance sheet at fair value. At December 31, 2002, the fair value of foreign currency-related derivatives was recorded as current assets of $127,000 and current liabilities of $2,637,000. At December 31, 2001, the fair value of foreign currency-related derivatives was recorded as current assets of $8,762,000.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is initially recorded in accumulated other comprehensive income (“OCI”) as a separate component of shareholders’ equity and subsequently reclassified into earnings in the period during which the hedged transaction is recognized in earnings. During the years ended December 31, 2002, 2001 and 2000, the Company recorded the following activity in accumulated other comprehensive income:

	Year Ended December 31,		
	2002	2001	2000
		(In thousands)	
Beginning OCI balance related to cash flow hedges	$ 6,424	$ (1,599)	$ —
Add: Net gain/(loss) initially recorded in OCI	(3,923)	10,950	(1,599)
Deduct: Net gain/(loss) reclassified from OCI into earnings	3,863	2,927	—
Ending OCI balance related to cash flow hedges	$(1,362)	$ 6,424	$(1,599)

During the year ended December 31, 2002, gains of $171,000 were reclassified into earnings as a result of the discontinuance of cash flow hedges. During the years ended December 30, 2001 and 2000, no gains or losses were reclassified into earnings as a result of the discontinuance of cash flow hedges.

As of December 31, 2002, $1,362,000 of deferred net losses related to derivative instruments designated as cash flow hedges were included in accumulated other comprehensive income. These derivative instruments hedge transactions that are expected to occur within the next twelve months. As the hedged transactions are completed, the related deferred net gain or loss is reclassified from accumulated other comprehensive income into earnings. The Company does not expect that such reclassifications would have a material effect on the Company’s earnings, as any gain or loss on the derivative instruments generally would be offset by the opposite effect on the related underlying transactions.

The ineffective portion of the gain or loss for derivative instruments that are designated and qualify as cash flow hedges is immediately reported in interest and other income, net. For foreign currency contracts designated as cash flow hedges, hedge effectiveness is measured using the spot rate. Changes in the spot-forward differential are excluded from the test of hedging effectiveness and are recorded currently in earnings as a component of interest and other income, net. During the years ended December 31, 2002, 2001 and 2000, the Company recorded net gains of $376,000 and 1,988,000 and a net loss of $174,000, respectively, as a result of changes in the spot-forward differential. Assessments of hedge effectiveness are performed using the dollar offset method and applying a hedge effectiveness ratio between 80% and 125%. Given that both the hedged item and the hedging instrument are evaluated using the same spot rate, the Company anticipates the hedges to be highly effective. The effectiveness of each derivative is assessed quarterly.

At December 31, 2002, 2001 and 2000, the notional amounts of the Company's foreign exchange contracts used to hedge outstanding balance sheet exposures were approximately $49,939,000, $34,411,000 and $10,457,000, respectively. The gains and losses on foreign currency contracts used to hedge balance sheet exposures are recognized in interest and other income in the same period as the remeasurement gain and loss of the related foreign currency denominated assets and liabilities and thus offset these gains and losses. During the years ended December 31, 2002, 2001 and 2000, the Company recorded net losses of $8,148,000 and net gains of $4,473,000 and $5,299,000, respectively, due to net realized and unrealized gains and losses on contracts used to hedge balance sheet exposures.

Energy Derivative

In the second quarter of 2001, the Company entered into a long-term, fixed-price, fixed-capacity, energy supply contract as part of a comprehensive strategy to ensure the uninterrupted supply of electricity while capping costs in the volatile California electricity market. The contract was originally effective through May 2006. This derivative did not qualify for hedge accounting treatment under SFAS No. 133. Therefore, the Company recognized in earnings the changes in the estimated fair value of the contract based on current market rates as unrealized energy derivative losses. During the fourth quarter of 2001, the Company notified the energy supplier that, among other things, the energy supplier was in default of the energy supply contract and that based upon such default, and for other reasons, the Company was terminating the energy supply contract. As a result, the Company adjusted the estimated fair value of this contract through the date of termination. As the contract is terminated and neither party to the contract is performing pursuant to the terms of the contract, the terminated contract ceased to represent a derivative instrument in accordance with SFAS No. 133. The Company, therefore, no longer records future valuation adjustments for changes in electricity rates. The Company continues to reflect the derivative valuation account on its balance sheet, subject to periodic review, in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Any non-cash unrealized gains to be recognized upon extinguishment of the derivative valuation account would be reported as non-operating income.

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

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 8. Earnings Per Common Share

The schedule below summarizes the elements included in the calculation of basic and diluted earnings per common share for the years ended December 31, 2002, 2001 and 2000.

	Year Ended December 31,		
	2002	2001	2000
		(In thousands, except per share data)	
Net income	$69,446	$58,375	$80,999
Weighted-average shares outstanding:			
Weighted-average shares outstanding — Basic	66,517	69,809	69,946
Dilutive securities	757	1,505	1,466
Weighted-average shares outstanding — Diluted	67,274	71,314	71,412
Earnings per common share:			
Basic			
Income before cumulative effect of accounting change	$ 1.04	$ 0.84	$ 1.17
Cumulative effect of accounting change	—	—	(0.01)
	$ 1.04	$ 0.84	$ 1.16
Diluted			
Income before cumulative effect of accounting change	$ 1.03	$ 0.82	$ 1.14
Cumulative effect of accounting change	—	—	(0.01)
	$ 1.03	$ 0.82	$ 1.13

For the years ended December 31, 2002, 2001 and 2000, options outstanding totaling 14,177,000 shares, 8,943,000 shares and 8,931,000 shares, respectively, were excluded from the calculations of earnings per common share, as their effect would have been antidilutive.

Note 9. Stock, Stock Options and Rights

Common Stock and Preferred Stock

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

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

Treasury Stock

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

	Year Ended December 31,					
	2002		2001		2000	
	Shares Repurchased	Average Cost Per Share	Shares Repurchased	Average Cost Per Share	Shares Repurchased	Average Cost Per Share
	(In thousands, except per share data)					
Authority Announced in May 2000	—	—	1,022	$19.09	4,815	$16.71
Authority Announced in August 2001	866	$17.86	4,979	$16.98	—	—
Authority Announced in May 2002	1,967	$15.75	—	—	—	—
Total	2,833	$16.40	6,001	$17.34	4,815	$16.71

As of December 31, 2002, the Company is authorized to repurchase up to $19,024,000 of its Common Stock under the repurchase program announced in May 2002. The Company's repurchases of shares of Common Stock are recorded at average cost in Common Stock held in treasury and result in a reduction of shareholders' equity.

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

Grantor Stock Trust

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

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

For financial reporting purposes, the GST is consolidated with the Company. The value of shares owned by the GST are accounted for as a reduction to shareholders' equity until used in connection with the settlement of employee stock option exercises and employee stock plan purchases. Each period, the shares owned by the GST are valued at the closing market price, with corresponding changes in the GST balance reflected in paid-in capital. The issuance of shares by the GST is accounted for by reducing the GST and paid-in capital accounts proportionately as the shares are released. The GST does not impact the determination or amount of compensation expense for the benefit plans being settled. For the year ended December 31, 2002, 197,000 shares and 439,000 shares were released from the GST in connection with the settlement of employee stock option exercises and employee stock plan purchases, respectively. For the year ended December 31, 2001, 150,000 shares and 223,000 shares were released from the GST for the settlement of employee stock option exercises and employee stock plan purchases, respectively and no shares were released during the year ended December 31, 2000.

Options

The Company had the following fixed stock option plans, under which shares were available for grant at December 31, 2002: the 1995 Employee Stock Incentive Plan (the “1995 Plan”), the 1996 Stock Option Plan (the “1996 Plan”), the 1998 Stock Incentive Plan (the “1998 Plan”), the 2001 Non-Employee Directors Stock Option Plan (the “2001 Directors Plan”) and the Promotion, Marketing and Endorsement Stock Incentive Plan (the “Promotion Plan”). The Promotion Plan expired in January 2003.

The 1996 Plan and the 1998 Plan permit the granting of options or other stock awards to the Company’s officers, employees and consultants. Under the 1996 Plan and the 1998 Plan, options may not be granted at option prices that are less than fair market value at the date of grant. The 1995 Plan permits the granting of options or other stock awards to only non-executive officer employees and consultants of the Company. Although stock option grants under the 1995 Plan may be made at exercise prices less than market value at the date of grant, the Company’s practice has been to grant stock options at exercise prices equal to the market value at the date of grant. The 1995 Plan was amended in 2001 and the 1996 Plan was amended in 2000 to increase the maximum number of shares of Common Stock to be issued upon exercise of an option to 10,800,000 and 9,000,000 shares, respectively.

During 1996 and 1995, the Company granted options to purchase shares to two key officers, under separate plans, in conjunction with terms of their initial employment (the “Key Officer Plans”). No shares are available for grant under the Key Officer Plans as of December 31, 2002.

Under the Promotion Plan, shares of Common Stock could have been granted in the form of options or other stock awards to golf professionals and other endorsers. It was the Company’s practice to make such grants at prices equal to the market value of the stock at the grant date, although the terms of the plan permitted below-market grants. As a result of the January 2003 expiration of the Promotion Plan, 812,000 options are no longer available for future issuance. The 2001 Directors Plan is a shareholder approved plan. It provides for automatic grants of stock options upon a non-employee Director’s initial appointment to the Company’s Board of Directors and annually on the anniversary of such appointment. All such grants are made at prices based on the market value of the stock at the date of grant.

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The following table presents shares authorized, available for future grant and outstanding under each of the Company's plans as of December 31, 2002:

	Authorized	Available	Outstanding
		(In thousands)	
1991 Plan	10,000	—	759
Promotion Plan	3,560	812	824
1995 Plan	10,800	1,652	6,738
1996 Plan	9,000	1,638	5,396
1998 Plan	500	250	117
Key Officer Plans	1,100	—	720
2001 Directors Plan	500	426	74
Directors Plan	840	—	308
Total	36,300	4,778	14,936

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

The following summarizes stock option transactions for the years ended December 31, 2002, 2001 and 2000:

	Year Ended December 31,					
	2002		2001		2000	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
	(In thousands, except per share data)					
Outstanding at beginning of year	14,753	$ 20.57	16,758	$ 19.66	15,747	$ 20.46
Granted	2,458	$ 16.46	3,475	$ 19.72	4,461	$ 13.71
Exercised	(1,077)	$ 12.10	(3,634)	$ 12.39	(2,252)	$ 10.64
Canceled	(1,198)	$ 24.45	(1,846)	$ 26.77	(1,198)	$ 25.01
Outstanding at end of year	14,936	$ 20.19	14,753	$ 20.57	16,758	$ 19.66
Options exercisable at end of year	11,522	$ 21.11	11,484	$ 21.20	12,394	$ 19.99
Price range of outstanding options		$5.00 - $40.00		$5.00 - $40.00		$2.50 - $40.00

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

Range of Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life-Years	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
	(In thousands)			(In thousands)	
$ 5 - $10	41	1.92	$ 6.36	33	$ 5.55
$10 - $15	3,952	5.28	$12.78	3,561	$12.71
$15 - $25	6,436	6.92	$17.90	3,563	$18.54
$25 - $40	4,507	2.39	$30.10	4,365	$30.19
$ 5 - $40	14,936	5.11	$20.19	11,522	$21.11

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During 2002, 2001 and 2000, the Company, at its discretion, extended the expiration terms or accelerated the vesting of 683,000, 1,422,000 and 622,000 options, respectively, held by certain employees and officers. At the time of the modifications, the exercise prices of the options were in excess of the then-current market price and accordingly these actions did not result in compensation expense for the Company. Also during 2001, the Company, at its discretion, cancelled and re-granted 17,000 options and recognizes compensation expense, if any, related to these options in accordance with variable plan accounting.

Shareholders' Rights Plan

The Company has a plan to protect shareholders' rights in the event of a proposed takeover of the Company. This plan is not intended to prevent transactions which provide full and fair value to shareholders. It is intended to discourage abusive takeover tactics and to provide time for the Company's Board of Directors to review and evaluate what is in the best interests of shareholders. Under the plan, each share of the Company's outstanding Common Stock carries one right to purchase one one-thousandth of a share of the Company's Series "A" Junior Participating Preferred Stock (the "Right"). The Right entitles the holder, under certain circumstances, to purchase Common Stock of Callaway Golf Company or of the acquiring company at a substantially discounted price ten days after a person or group publicly announces it has acquired or has tendered an offer for 15% or more of the Company's outstanding Common Stock. The Rights are redeemable by the Company at $.01 per Right and expire in 2005.

Restricted Common Stock

During 1998, the Company granted 130,000 shares of Restricted Common Stock with a fair value of $31 per share to 26 officers of the Company. Of these shares, 83,750 shares have been canceled due to the service requirement not being met. During 1998, the Company, at its discretion, accelerated the vesting of 20,000 shares and recorded related compensation expense of $618,000. The remaining 26,250 shares, which are restricted as to sale or transfer until vesting, vested on January 1, 2003. The net compensation expense of $813,750 related to the remaining shares was recognized ratably over the vesting period, based on the difference between the exercise price and market value of the stock on the measurement date.

Employee Stock Purchase Plan

The Company had an Employee Stock Purchase Plan ("ESPP") whereby eligible employees purchased shares of Common Stock at 85% of the lower of the fair market value on the first day of a two year offering period or the last day of each six month exercise period. Eligible employees authorized the Company to withhold compensation during an offering period, subject to certain limitations. In May 1999, the Company's shareholders approved a new ESPP (the "1999 ESPP") with substantially the same terms as the ESPP. This plan was effective February 1, 2000 upon the termination of the ESPP.

During 2002, 2001, and 2000, approximately 443,000, 506,000 and 412,000 shares, respectively, of the Company's Common Stock were purchased under the 1999 ESPP or the ESPP. As of December 31, 2002, 835,000 shares were reserved for future issuance under the 1999 ESPP.

Compensation Expense

During 2002, 2001 and 2000, the Company recorded $314,000, $342,000 and $2,157,000, respectively, in compensation expense for Restricted Common Stock and certain options to purchase shares of Common Stock granted to employees, officers, professional endorsers and consultants of the Company. The valuation of options granted to non-employees is estimated using the Black-Scholes option-pricing model.

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

Pro Forma Disclosures

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" to stock-based employee compensation.

	Year Ended December 31,		
	2002	2001	2000
	(In thousands, except per share data)		
Net income:			
Net income, as reported	$ 69,446	$ 58,375	$ 80,999
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	114	179	254
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(11,003)	(14,606)	(22,492)
Pro forma net income	$ 58,557	$ 43,948	$ 58,761
Earnings per Common Share:			
Basic — as reported	$ 1.04	$ 0.84	$ 1.16
Basic — pro forma	$ 0.88	$ 0.63	$ 0.84
Diluted — as reported	$ 1.03	$ 0.82	$ 1.13
Diluted — pro forma	$ 0.88	$ 0.62	$ 0.83

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

	Year Ended December 31,		
	2002	2001	2000
Dividend yield	1.7%	1.6%	1.1%
Expected volatility	52.2%	53.9%	53.0%
Risk free interest rates	1.94% - 2.37%	3.81% - 4.22%	5.18% - 5.56%
Expected lives	3 - 4 years	3 - 4 years	3 - 4 years

The weighted-average grant-date fair value of options granted during 2002, 2001 and 2000 was $6.17, $6.98 and $6.91 per share, respectively. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in subjective input assumptions can materially affect the fair value estimates, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of grants under the Company's employee stock-based compensation plans.

Note 10. Employee Benefit Plans

The Company has a voluntary deferred compensation plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan") for all employees who satisfy the age and service requirements under the 401(k) Plan. Each participant may elect to contribute up to 15% of annual compensation, up to the maximum permitted under Federal law, and the Company is obligated to contribute annually an amount equal to 100% of the participant's contribution up to 6% of that participant's annual compensation. Employees contributed $6,502,000 $6,353,000 and $6,119,000 to the 401(k) Plan in 2002, 2001 and 2000, respectively. In accordance with the provisions of the 401(k) Plan, the Company matched employee contributions in the amount of $4,912,000, $4,474,000 and $4,706,000 during 2002, 2001 and 2000, respectively. Additionally, the Company can make discretionary contributions based on the profitability of the Company. For the years ended December 31, 2002, 2001 and 2000, the Company recorded compensation expense for discretionary contributions of $2,669,000, $3,786,000 and $3,799,000, respectively.

The Company also has an unfunded, non-qualified deferred compensation plan. The plan allows officers, certain other employees and directors of the Company to defer all or part of their compensation, to be paid to the participants or their designated beneficiaries upon retirement, death or separation from the Company. To support the deferred compensation plan, the Company has elected to purchase Company-owned life insurance. The cash surrender value of the Company-owned insurance related to deferred compensation is included in other assets and was $9,139,000 and $10,556,000 at December 31, 2002 and 2001, respectively. The liability for the deferred compensation is included in long-term liabilities and was $7,375,000 and $8,297,000 at December 31, 2002, and 2001, respectively. For the years ended December 31, 2002 and 2001, the total participant deferrals were $1,634,000 and $836,000, respectively.

Note 11. Income Taxes

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

	Year Ended December 31,		
	2002	2001	2000
		(In thousands)	
United States	$101,897	$75,872	$101,890
Foreign	9,774	22,320	27,432
	$111,671	$98,192	$129,322

The provision for income taxes is as follows:

	Year Ended December 31,		
	2002	2001	2000
		(In thousands)	
Current tax provision:			
Federal	$26,666	$23,056	$26,616
State	3,935	3,350	5,130
Foreign	3,811	8,273	10,623
Deferred tax expense (benefit):			
Federal	5,944	3,595	7,463
State	1,367	1,526	(1,596)
Foreign	502	17	(870)
Income tax provision	$42,225	$39,817	$47,366

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During 2002, 2001 and 2000, the Company recognized certain tax benefits related to stock option exercises in the amount of $5,479,000, $14,520,000 and $6,806,000, respectively. Such benefits were recorded as a reduction of income taxes payable and an increase in paid-in capital.

Deferred tax assets and liabilities are classified as current or noncurrent according to the classification of the related asset or liability. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2002 and 2001 are as follows:

	December 31,	
	2002	2001
	(In thousands)	
Deferred tax assets:		
Reserves and allowances	$15,089	$20,032
Depreciation and amortization	—	2,962
Compensation and benefits	5,513	5,506
Effect of inventory overhead adjustment	1,858	3,571
Compensatory stock options and rights	1,734	2,344
Revenue recognition	7,209	8,433
Long-lived asset impairment	1,757	1,738
Capital loss carryforward	41	283
Tax credit carryforwards	1,458	2,192
Energy derivative	8,129	8,041
Other	2,427	—
Total deferred tax assets	45,215	55,102
Valuation allowance for deferred tax assets	(2,454)	(2,764)
Deferred tax assets, net of valuation allowance	42,761	52,338
Deferred tax liabilities:		
State taxes, net of federal income tax benefit	(1,454)	(2,361)
Depreciation and amortization	(1,572)	—
Other	—	(2,429)
Net deferred tax assets	$39,735	$47,548

At December 31, 2002, the Company had $1,458,000 of credit carryforwards primarily relating to state investment tax credits that expire at various dates between December 31, 2007 and 2010.

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

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

	Year Ended December 31,		
	2002	2001	2000
		(In thousands)	
Amounts computed at statutory U.S. tax rate	$39,085	$34,367	$45,263
State income taxes, net of U.S. tax benefit	4,213	4,047	4,112
State tax credits, net of U.S. tax benefit	(429)	(878)	(325)
Expenses with no tax benefit	1,089	693	931
Foreign sales corporation tax benefits	(1,060)	(1,406)	(1,487)
Change in deferred tax valuation allowance	(310)	1,410	(2,836)
Other	(363)	1,584	1,708
Income tax provision	$42,225	$39,817	$47,366

U.S. income taxes were not provided for undistributed earnings of certain non-U.S. subsidiaries that will be re-invested outside the United States indefinitely. As of December 31, 2002 the cumulative amount of net undistributed earnings of foreign subsidiaries was $22,368,000. It is not practical to calculate the unrecognized deferred tax liability associated with the undistributed earnings.

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

Note 12. Commitments and Contingencies

Supply of Electricity and Energy Contracts

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

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

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

On November 30, 2001, EESI notified the Company that it disagreed that it was in default of the Enron Contract and that it was prepared to deliver energy pursuant to the Enron Contract. On December 2, 2001, EESI, along with Enron Corporation and numerous other related entities, filed for bankruptcy. Since

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

November 30, 2001, the parties have not been operating under the Enron Contract and Pilot Power has been providing energy to the Company from alternate suppliers.

As a result of the Company's notice of termination to EESI, and certain other automatic termination provisions under the Enron Contract, the Company believes that the Enron Contract has been effectively and appropriately terminated. There can be no assurance that EESI or another party will not assert a future claim against the Company or that a bankruptcy court or arbitrator will not ultimately nullify the Company's termination of the Enron Contract. No provision has been made for contingencies or obligations, if any, under the Enron Contract beyond November 30, 2001.

Legal Matters

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

In addition, the Company from time to time receives information claiming that products sold by the Company infringe or may infringe patent or other intellectual property rights of third parties. It is possible that one or more claims of potential infringement could lead to litigation, the need to obtain licenses, the need to alter a product to avoid infringement, a settlement or judgment, or some other action or loss by the Company.

On April 6, 2001, a complaint was filed against Callaway Golf Company and Callaway Golf Sales Company, in the Circuit Court of Sevier County, Tennessee, Case No. 2001-241-IV. The complaint seeks to assert a class action by plaintiff on behalf of himself and on behalf of consumers in Tennessee and Kansas who purchased select Callaway Golf products on or after March 30, 2000. Specifically, the complaint alleges that the Company adopted a New Product Introduction Policy governing the introduction of certain of the Company's new products in violation of Tennessee and Kansas antitrust and consumer protection laws. The plaintiff is seeking damages, restitution and punitive damages. The parties are engaged in discovery.

On November 4, 2002, Callaway Golf Sales Company was served with a complaint filed in the District Court of Sedgwick County, Kansas, Case No. 0203607, seeking to assert an alleged class action on behalf of Kansas consumers who purchased select Callaway Golf products covered by the New Product Introduction Policy. Callaway Golf Company is also named in the Kansas case. The plaintiff in the Kansas case seeks damages and restitution for the alleged class under Kansas law.

On October 3, 2001, the Company filed suit in the United States District Court for the District of Delaware, Civil Action No. 01-669, against Dunlop Slazenger Group Americas, Inc., d/b/a MaxFli ("MaxFli"), for infringement of a golf ball aerodynamics patent owned by the Company. On October 15, 2001, MaxFli filed an answer to the complaint denying any infringement, and also filed a counterclaim against the Company asserting that former MaxFli employees hired by the Company had disclosed confidential MaxFli trade secrets to the Company, and that the Company had used that information to enter the golf ball business. Among other remedies, MaxFli is seeking compensatory damages, punitive damages and attorneys' fees; a declaratory judgment; and injunctive relief. Both parties have amended their claims. The Company added a claim for false advertising and MaxFli added a claim for inequitable conduct before the Patent and Trademark Office. The parties are engaged in fact and expert discovery. MaxFli submitted a report from its damages expert asserting that MaxFli is entitled to at least $18,500,000 in compensatory damages from the Company. MaxFli has informed the Company that it may seek leave to amend its damages expert report to increase the damages that MaxFli will seek at trial. The Company has submitted its own expert report seeking damages of $6,300,000 for patent infringement and false advertising. The Company anticipates that each party will challenge the methodology and conclusions in the expert damages reports of the other. The trial date has been scheduled for February 23, 2004. An unfavorable resolution of MaxFli's counterclaim could have a significant adverse effect upon the Company's results of operations, cash flows and financial position.

On December 2, 2002, Callaway Golf Company was served with a complaint filed in the Circuit Court of the 19th Judicial District in and for Martin County, Florida, Case No. 935CA, by the Perfect Putter Co., and certain principals of the Perfect Putter Co. Plaintiffs have sued Callaway Golf Company, Callaway Golf Sales Company and a Callaway Golf Sales Company sales representative. Plaintiffs allege that the Company misappropriated certain alleged trade secrets of the Perfect Putter Co. and incorporated those purported trade secrets in the Company's Odyssey White Hot 2-Ball Putter. Plaintiffs also allege that the Company made false statements and acted inappropriately during discussions with plaintiffs. Plaintiffs are seeking compensatory damages, exemplary damages, attorneys fees and costs, pre- and post-judgment interest and injunctive relief. On December 20, 2002, Callaway Golf removed the case to the United States District Court for the Southern District of Florida, Case No. 02-14342. The plaintiffs have moved in the federal court for an order remanding the case to state court; that motion is pending. No discovery has occurred.

The Company's Korean subsidiary, Callaway Golf Korea Ltd., inadvertently failed to make a filing for the 1998-2000 fiscal years under the Korean Foreign Exchange Transaction Regulation, which requires disclosure of intercompany transfers received by Callaway Golf Korea from the Company for warranty claims. Failure to make this filing can result in potential criminal penalties for the responsible employee and Callaway Golf Korea. The Company learned about the error in the course of a routine audit by Korean customs authorities. Upon learning of the filing requirement, the required disclosures were made by Callaway Golf Korea for 2001 and 2002, but could not be made retroactively for 1998-2000. The Company's outside tax advisor advised the Company in late October 2002 that Korean Customs authority procedures require that the matter be referred to Korean prosecutors for review. No action has been filed at this time. The Company believes that if an action is brought and penalties are assessed, they will be immaterial in amount.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims, including the matters specifically noted above. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to estimate the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of December 31, 2002. Except as discussed above with regard to the MaxFli litigation, management believes at this time that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's consolidated annual results of operations or cash flows, or financial position.

Vendor Arrangements

The Company is dependent on a limited number of suppliers for its clubheads and shafts, some of which are single-sourced. In addition, some of the Company's products require specifically developed manufacturing techniques and processes which make it difficult to identify and utilize alternative suppliers quickly. The Company believes that suitable clubheads and shafts could be obtained from other manufacturers in the event its regular suppliers 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 single-sourced or dependent on a limited number of suppliers for the materials it uses to make its golf balls. Many of the materials are customized for the Company. Any delay or interruption in such supplies could have a material adverse impact upon the Company's golf ball business. If the Company did experience any such delays or interruptions, there is no assurance that the Company would be able to find adequate alternative suppliers at a reasonable cost or without significant disruption to its business.

The Company has entered into long-term purchase agreements for various key raw materials. As of December 31, 2002, the purchase commitments covered by these agreements aggregate approximately $3,600,000 for 2003 related to golf ball materials and approximately $5,643,000 related to golf club materials through December 2004.

Lease Commitments

The Company leases certain warehouse, distribution and office facilities, as well as office equipment under operating leases. Lease terms range from one to ten years expiring at various dates through December 2008, with options to renew at varying terms. Commitments for minimum lease payments under non-cancelable operating leases as of December 31, 2002 are as follows:

	(In thousands)
2003	$ 4,323
2004	2,490
2005	2,115
2006	2,086
2007	1,714
Thereafter	488
	$13,216

Future minimum lease payments have not been reduced by future minimum sublease rentals of $1,518,000 under an operating lease. At December 31, 2002, the Company is contingently liable for $458,000 through February 2003 under an operating lease that was assigned to a third party. Rent expense for the years ended December 31, 2002, 2001, and 2000 was $3,780,000, $3,759,000 and $3,197,000, respectively.

Golf Professional Endorsement Contracts

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 Champions Tour, the PGA Tour, the LPGA Tour, the PGA European Tour, the Japan Golf Tour and the Nationwide Tour. Many of these contracts provide incentives for successful performances using the Company's products. For example, under these contracts, the Company could be obligated to pay a cash bonus to a professional who wins a particular tournament while playing the Company's golf clubs. It is not possible to predict with any certainty the amount of such performance awards the Company will be required to pay in any given year. Such expenses, however, are an ordinary part of the Company's business and the Company does not believe that the payment of these performance awards will have a material adverse effect upon the Company.

Other Contingent Contractual Obligations

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company's customers and licensees in connection with the use, sale and/or license of Company products, (ii) indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease, (iii) indemnities to vendors and service providers pertaining to claims based on the negligence or willful misconduct of the Company, (iv) indemnities involving the accuracy of representations and warranties in certain contracts, and (v) indemnities to directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware. In addition, the Company has made contractual commitments to several employees providing for severance payments upon the occurrence of certain prescribed events. The Company also has several consulting agreements that provide for payment of nominal fees upon the issuance of patents and/or the commercialization of research results. The Company has also issued a guarantee in the form of a standby letter of credit as security for contingent liabilities under certain workers compensation insurance policies. The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum amount of future payments the Company could be obligated to make. The Company has not recorded any liability for these indemnities, commitments and guarantees in the accompanying consolidated balance sheets.

Employment Contracts

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

Note 13. Segment Information

The Company utilizes the management approach to report segment information. The Company’s operating segments are organized on the basis of products and include Golf Clubs and Golf Balls. The Golf Clubs segment consists primarily of Callaway Golf titanium and stainless steel metal woods and irons, Callaway Golf and Odyssey putters and wedges and golf-related accessories. The Golf Balls segment consists of golf balls that are designed, manufactured and sold by the Company. There are no significant intersegment transactions.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	2002	2001	2000
		(In thousands)	
Net sales			
Golf Clubs	$726,041	$761,310	$803,663
Golf Balls	66,023	54,853	33,964
	$792,064	$816,163	$837,627
Income (loss) before tax			
Golf Clubs	$178,510	$184,770	$213,786
Golf Balls	(25,576)	(17,868)	(45,918)
Reconciling items(1)	(41,263)	(68,710)	(38,546)
	$111,671	$ 98,192	$129,322
Identifiable assets(2)			
Golf Clubs	$311,823	$343,741	$317,036
Golf Balls	103,152	60,166	52,255
	$414,975	$403,907	$369,291
Goodwill			
Golf Clubs	$ 18,202	$ 16,846	$ 16,410
Golf Balls	—	—	—
	$ 18,202	$ 16,846	$ 16,410
Depreciation and amortization			
Golf Clubs	$ 30,628	$ 33,212	$ 34,326
Golf Balls	7,012	4,255	5,923
	$ 37,640	$ 37,467	$ 40,249

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

(2) Identifiable assets are comprised of net inventory, property, plant and equipment and intangible assets. Total identifiable assets differ from total assets as a result of unallocated corporate assets not segregated between the two segments.

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

	Year Ended December 31,		
	2002	2001	2000
	(In thousands)		
Net sales			
Drivers and fairway woods	$309,972	$392,945	$403,000
Irons	243,454	248,872	299,912
Putters	111,523	67,471	55,167
Golf balls	66,023	54,853	33,964
Accessories and other	61,092	52,022	45,584
	$792,064	$816,163	$837,627

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

	Sales	Long-Lived Assets
	(In thousands)	
2002		
United States	$438,692	$263,706
Japan	102,624	3,791
Europe	136,941	16,477
Rest of Asia	58,040	1,000
Other foreign countries	55,767	3,683
	$792,064	$288,657
2001		
United States	$444,091	$234,281
Japan	130,706	3,415
Europe	118,417	13,261
Rest of Asia	63,928	729
Other foreign countries	59,021	2,877
	$816,163	$254,563
2000		
United States	$451,264	$228,920
Japan	122,003	3,229
Europe	125,511	11,229
Rest of Asia	82,371	994
Other foreign countries	56,478	3,164
	$837,627	$247,536

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 14. Licensing Arrangements

In 2001, the Company and Nordstrom, Inc. mutually terminated their prior licensing arrangement, which included men's and women's golf apparel, men's footwear and sun and skin care products. Also in 2001, the Company entered into an exclusive licensing arrangement with Ashworth, Inc. for the creation of a complete line of men's and women's apparel for distribution in the United States, Canada, Europe, Australia, New Zealand and South Africa. In addition, the Company also entered into a long-term licensing agreement with Sanei International Co., Ltd. to create and sell Callaway Golf apparel in Japan. The Company's golf apparel products were available at retail beginning in 2002. The first full year for which the Company will receive royalty revenue under these licensing arrangements is 2003.

In 2002, the Company extended its apparel licensing arrangement within the Asian markets by entering into another long-term licensing agreement with Sanei International Co., Ltd. to create and sell Callaway Golf apparel in South Korea beginning in 2003. Also in 2002, the Company entered into an exclusive licensing arrangement with Tour Golf Group, Inc. for the creation of a golf footwear collection for initial distribution in the United States and Canada beginning in March 2003 and entered into an exclusive licensing arrangement with TRG Accessories, LLC for the creation of a collection consisting of luggage, personal leather products and skin protection products for distribution in the United States, Canada, Europe and Asia beginning in late 2003.

Note 15. Transactions with Related Parties

A director of the Company is also a retired partner of a law firm which performs legal services for the Company. Legal fees incurred with this law firm totaled $1,095,000, $351,000 and $469,000 in 2002, 2001 and 2000, respectively. Another director of the Company is also a senior managing director of an investment bank which performed services for the Company. There were no investment banking fees incurred with this investment bank in 2002 and 2000; however, fees paid in 2001 totaled $557,000.

The Callaway Golf Company Foundation (the "Foundation") oversees and administers charitable giving for the Company and makes grants to carefully selected organizations. Directors and executive officers of the Company also serve as directors of the Foundation and the Company's employees provide accounting and administrative services for the Foundation. In 2002, the Company recognized a charitable contribution expense of $1,165,000 as a result of its unconditional promise to contribute such amount to the Foundation. As of December 31, 2002, the Company had paid $364,000 of the contribution. The remaining $801,000 was paid in 2003. In 2001 and 2000, the Company donated $1,000,000 and $288,000, respectively, to the Foundation.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 16. Summarized Quarterly Data (Unaudited)

	Fiscal Year 2002 Quarters				
	1st	2nd	3rd[2]	4th	Total[2]
	(In thousands, except per share data)				
Net sales	$256,380	$252,182	$160,981	$122,521	$792,064
Gross profit	$128,423	$137,498	$ 79,610	$ 53,465	$398,996
Net income (loss)	$ 30,694	$ 37,142	$ 7,187	$ (5,577)	$ 69,446
Earnings (loss) per common share[1]					
Basic	$ 0.46	$ 0.56	$ 0.11	$ (0.08)	$ 1.04
Diluted	$ 0.45	$ 0.55	$ 0.11	$ (0.08)	$ 1.03

	Fiscal Year 2001 Quarters				
	1st	2nd[3]	3rd[3]	4th	Total[3]
Net sales	$261,365	$253,655	$195,848	$105,295	$816,163
Gross profit	$136,907	$131,936	$ 95,024	$ 40,711	$404,578
Net income (loss)	$ 34,075	$ 26,975	$ 6,519	$ (9,194)	$ 58,375
Earnings (loss) per common share[1]					
Basic	$ 0.49	$ 0.38	$ 0.09	$ (0.14)	$ 0.84
Diluted	$ 0.47	$ 0.36	$ 0.09	$ (0.14)	$ 0.82

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

(2) The Company's gross profit, net income and earnings per common share includes the effect of the change in accounting estimate for the Company's warranty accrual. During the third quarter of 2002, the Company reduced its warranty reserve by approximately $17,000,000, pre-tax (Note 3).

(3) The Company's net income and earnings per common share include the recognition of unrealized energy contract losses due to changes in the estimated fair value of the energy contract based on market rates. During the second and third quarters of 2001, the Company recorded $6,400,000 and $7,800,000, respectively, of after- tax unrealized losses. During the fourth quarter of 2001, the Company terminated the energy contract. As a result, the Company will continue to reflect the derivative valuation account on its balance sheet with no future valuation adjustments for changes in market rates, subject to periodic review (Notes 7 and 12).

INDEPENDENT AUDITORS' REPORT

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

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

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

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

As discussed above, the consolidated financial statements of Callaway Golf Company and subsidiaries as of December 31, 2001, and for the year then ended, were audited by other auditors who have ceased operations. As described in Notes 5 and 9, these consolidated financial statements have been revised to include certain transitional disclosures and reclassifications required by Statement of Financial Accounting Standards (Statement) No. 142, Goodwill and Other Intangible Assets, which was adopted by the Company as of January 1, 2002 and Statement No. 148, Accounting for Stock Based Compensation-Transition and Disclosure, which disclosure provisions were adopted by the Company on December 31, 2002. Our audit procedures with respect to the disclosures in Note 5 pertaining to 2001 included (i) agreeing the previously reported net income to the previously issued financial statements and the adjustments to reported net income representing amortization expense, net of related tax effects, recognized in those periods related to goodwill and intangible assets that are no longer being amortized, as a result of initially applying Statement No. 142, to the Company's underlying records obtained from management; (ii) agreeing the amounts of goodwill, gross non-amortizing and amortizing intangible assets and their related accumulated amortization and net book value to the Company's underlying records obtained from management; and (iii) testing the mathematical accuracy of the reconciliation of adjusted net income to reported net income and the related earnings per share amounts and the components of the intangible assets to reported intangible assets, and the reclassification of goodwill. Our audit procedures with respect to the pro forma disclosures in Note 9 pertaining to 2001 included agreeing the previously reported net income and pro forma net income amounts to previously issued financial statements and the adjustments to reported net income representing stock-based employee compensation expense included in reported net income and total stock-based employee compensation expense determined under a fair value based method for all awards, net of related tax effects, to the Company's underlying records obtained from management. In our opinion, the disclosures for 2001 in Notes 5 and 9 and related reclassifications, as described above, are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

As discussed in Note 5 to the consolidated financial statements, in 2002 the Company changed its method of accounting for goodwill and intangible assets.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California

February 4, 2003 (except for Note 6, as to which the date is February 26, 2003)

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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

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

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

/s/ ARTHUR ANDERSEN LLP

San Diego, California January 15, 2002

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders

of Callaway Golf Company:

In our opinion, the accompanying consolidated statements of operations, of cash flows and of shareholders' equity for the year ended December 31, 2000 present fairly, in all material respects, the results of operations and cash flows of Callaway Golf Company and its subsidiaries for the year ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS, LLP

San Diego, California

March 19, 2001

SCHEDULE II

CALLAWAY GOLF COMPANY

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 2002, 2001 and 2000

Date	Allowance for Doubtful Accounts	Reserve for Obsolete Inventory	Accrual for Warranty Expense	Valuation Allowance for Deferred Tax Assets
		(In thousands)		
Balance, December 31, 1999	$ 5,291	$ 14,994	$ 36,105	$ 4,190
Provision	4,615	3,372	17,675	135
Write-off, disposals, costs and other, net	(3,679)	(10,646)	(14,417)	(2,971)
Balance, December 31, 2000	6,227	7,720	39,363	1,354
Provision	(412)	4,392	9,527	1,459
Write-off, disposals, costs and other, net	(658)	(4,976)	(14,026)	(49)
Balance, December 31, 2001	5,157	7,136	34,864	2,764
Provision	1,124	12,871	(6,987) [1]	—
Write-off, disposals, costs and other, net	(807)	(3,246)	(14,413)	(310)
Balance, December 31, 2002	$ 5,474	$ 16,761	$ 13,464	$ 2,454

(1) During the third quarter of 2002 the Company reduced its warranty reserve by approximately $17,000,000 (see Note 3 of the Company’s Consolidated Financial Statements).

INDEPENDENT AUDITORS' REPORT ON

FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of Callaway Golf Company

We have audited the consolidated financial statements of Callaway Golf Company and subsidiaries as of December 31, 2002, and for the year then ended, and have issued our report thereon dated February 4, 2003 (except for Note 6, as to which the date is February 26, 2003), which report expresses an unqualified opinion and includes explanatory paragraphs relating to (i) the adoption of a new accounting principle and (ii) the application of procedures with respect to certain other disclosures related to the 2001 consolidated financial statements that were audited by other auditors who have ceased operations and for which we have expressed no opinion or other form of assurance other than with respect to such disclosures); such financial statements and report are included elsewhere in this Annual Report of Callaway Golf Company on Form 10-K for the year ended December 31, 2002. Our audit also included the consolidated financial statement schedule of Callaway Golf Company for the year ended December 31, 2002, listed in the accompanying index at Item 15(a)(2). This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audit. In our opinion, such 2002 consolidated financial statement schedule, when considered in relation to the basic 2002 financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California

February 4, 2003

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON

FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of Callaway Golf Company:

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

/s/ ARTHUR ANDERSEN LLP

San Diego, California

January 15, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON

FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of Callaway Golf Company:

Our audit of the consolidated financial statements referred to in our report dated March 19, 2001 appearing on pages F-1 through F-37 of this Form 10-K also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

San Diego, California

March 19, 2001

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EXHIBIT INDEX

Exhibit Number	Description
3.2	Second Amended and Restated Bylaws, as amended and restated as of February 27, 2003.
10.7	Executive Officer Employment Agreement, effective November 6, 2002, by and between the Company and Patrice Hutin.
10.9	Amended and Restated Executive Officer Employment Agreement, entered into as of October 1, 2002, by and between the Company and Ian B. Rowden.
10.11	Separation Agreement and General Release, made as of August 31, 2002, by and between Michael W. McCormick and the Company.
10.20	Callaway Golf Company 1995 Employee Stock Incentive Plan (as amended and restated November 7, 2001).
10.35	Fourth Amendment and Limited Waiver to Amended and Restated Credit Agreement, dated as of December 31, 2001, by and among the Company, the other credit parties to the Amended and Restated Credit Agreement, the lenders signatory to this Amendment and General Electric Capital Corporation.
10.36	Fifth Amendment and Limited Waiver to Amended and Restated Credit Agreement, dated as of February 25, 2003, by and among the Company, the other credit parties to the Amended and Restated Credit Agreement, the lenders signatory to this Amendment and General Electric Capital Corporation.
10.43	Receivables Purchase Termination and Reconveyance Agreement, dated February 26, 2003, among Golf Funding Corporation, Callaway Golf Sales Company, Redwood Receivables Corporation and General Electric Capital Corporation.
21.1	List of Subsidiaries.
23.1	Consent of Deloitte & Touche LLP.
23.2	Note Regarding Arthur Andersen LLP.
23.3	Consent of PricewaterhouseCoopers LLP.
24.1	Form of Power of Attorney.
99.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

EXHIBIT 3.2

SECOND AMENDED AND RESTATED

BYLAWS

OF

CALLAWAY GOLF COMPANY

(A DELAWARE CORPORATION)

(AS AMENDED AND RESTATED FEBRUARY 27, 2003)

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Amended and Restated February 27, 2003

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Amended and Restated February 27, 2003

ARTICLE I

CORPORATE OFFICES

1.1 REGISTERED OFFICE

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

1.2 OTHER OFFICES

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

ARTICLE II

MEETINGS OF STOCKHOLDERS

2.1 PLACE OF MEETINGS

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

2.2 ANNUAL MEETING

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

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

(c) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of Section 2.2(b) above, the stockholder must have given timely notice thereof in writing to the secretary of the corporation and such other business must be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14a-11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (ii) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (iii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (x) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner and (y) the class and number of shares of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

2.3 SPECIAL MEETING

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

2.4 NOTICE OF STOCKHOLDERS' MEETINGS

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

2.5 CONDUCT OF MEETING

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

2.6 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE

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

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

2.7 QUORUM

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

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

If a quorum be initially present, the stockholders may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken is approved by a majority of the stockholders initially constituting the quorum.

2.8 ADJOURNED MEETING; NOTICE

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

2.9 VOTING

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

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

2.10 WAIVER OF NOTICE

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

2.11 STOCKHOLDER ACTION BY WRITTEN CONSENT

Except as may be otherwise provided in the certificate of incorporation, any action which may be taken at any annual or special meeting of stockholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take that action at a meeting at which all shares entitled to vote on that action were present and voted. In the case of election of directors, if the certificate of incorporation so provides, such a consent shall be effective only if signed by the holders of all outstanding shares entitled to vote for the election of directors; provided, however, that a director may be elected at any time to fill a vacancy on the board of directors (other than a vacancy created by the removal of a director) that has not been filled by the directors, by the written consent of the holders of a majority of the outstanding shares entitled to vote for the election of directors. All such consents shall be filed with the secretary of the corporation and shall be maintained in the corporate records. Any stockholder giving a written consent, or the stockholder's proxy holders, may revoke the consent by a writing received by the secretary of the corporation before written consents of the number of shares required to authorize the proposed action have been filed with the secretary.

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

2.12 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING

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

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

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

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

2.13 PROXIES

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

2.14 LIST OF STOCKHOLDERS ENTITLED TO VOTE

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

ARTICLE III

DIRECTORS

3.1 POWERS

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

3.2 NUMBER OF DIRECTORS; INDEPENDENCE

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

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

3.3 ELECTION AND TERM OF OFFICE OF DIRECTORS

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

3.4 RESIGNATION AND VACANCIES

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

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

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

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

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

3.6 REGULAR MEETINGS

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

3.7 SPECIAL MEETINGS; NOTICE

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

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

3.8 QUORUM

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

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

3.9 WAIVER OF NOTICE

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

3.10 ADJOURNMENT

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

3.11 NOTICE OF ADJOURNMENT

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

3.12 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

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

3.13 FEES AND COMPENSATION OF DIRECTORS

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

3.14 APPROVAL OF LOANS TO OFFICERS

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

ARTICLE IV

COMMITTEES

4.1 COMMITTEES OF DIRECTORS

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

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

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

4.2 MEETINGS AND ACTION OF COMMITTEES

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

4.3 COMMITTEE MINUTES

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

ARTICLE V

OFFICERS

5.1 OFFICERS

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

5.2 ELECTION OF OFFICERS

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

5.3 SUBORDINATE OFFICERS

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

5.4 REMOVAL AND RESIGNATION OF OFFICERS

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

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

5.5 VACANCIES IN OFFICES

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

5.6 CHAIRMAN OF THE BOARD

The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may from time to time be assigned by the board of directors or as may be prescribed by these bylaws. If there is no president, then the chairman of the board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these bylaws.

5.7 PRESIDENT

Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction, and control of the business and the officers of the corporation. The president shall preside at all meetings of the stockholders and, in the absence or nonexistence of a chairman of the board, at all meetings of the board of directors. The president shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws.

5.8 VICE PRESIDENTS

In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these bylaws, the president or the chairman of the board.

5.9 SECRETARY

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

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

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

5.10 CHIEF FINANCIAL OFFICER

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

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

ARTICLE VI

INDEMNIFICATION OF DIRECTORS,
OFFICERS, EMPLOYEES AND OTHER AGENTS

6.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

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

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

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

6.2 INDEMNIFICATION OF OTHERS

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

6.3 INSURANCE

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

ARTICLE VII

RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF RECORDS

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

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

7.2 INSPECTION BY DIRECTORS

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

7.3 REPRESENTATION OF SHARES OF OTHER CORPORATIONS

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

7.4 CERTIFICATION AND INSPECTION OF BYLAWS

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

ARTICLE VIII

GENERAL MATTERS

8.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING

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

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

8.2 CHECKS; DRAFTS; EVIDENCES OF INDEBTEDNESS

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

8.3 CORPORATE CONTRACTS AND INSTRUMENTS: HOW EXECUTED

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

8.4 STOCK CERTIFICATES; TRANSFER; PARTLY PAID SHARES

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

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

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

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

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

8.5 SPECIAL DESIGNATION ON CERTIFICATES

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

8.6 LOST CERTIFICATES

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

8.7 TRANSFER AGENTS AND REGISTRARS

The board of directors may appoint one or more transfer agents or transfer clerks, and one or more registrars, each of which shall be an incorporated bank or trust company -- either domestic or foreign, who shall be appointed at such times and places as the requirements of the corporation may necessitate and the board of directors may designate.

8.8 CONSTRUCTION; DEFINITIONS

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

ARTICLE IX

AMENDMENTS

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

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

Amended and Restated February 27, 2003

EXHIBIT 10.7

EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered effective November 6, 2002 by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Company"), and PATRICE HUTIN ("Employee").

A. Callaway Golf Europe Ltd., a wholly-owned subsidiary of the Company, and Employee are parties to that certain Director's Service Agreement entered into as of September 14, 2000, as subsequently amended. The Company and Employee desire to supersede and replace the Director's Service Agreement in the manner set forth herein. The Director's Service Agreement shall no longer be of any force or effect. To the extent there is any conflict between the Director's Service 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.

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

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 November 6, 2002 and terminating December 31, 2003.

(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 year, through December 31 of the following year, so long as (a) this Agreement is otherwise 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 and Advertising, 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 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, 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, payable in equal increments in accordance with the Company's current pay schedule.

(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) Paid Time Off. Employee shall accrue thirty (30) days of paid time off annually. With the exception of the accrual of paid time off, all other portions of the Paid Time Off Program, as stated in the Company's Employee Handbook, as may be modified from time to time, shall govern Employee's paid time off. The time off may be taken any time during the year subject to prior approval by the Company, such approval not to be unreasonably withheld. The Company reserves the right to pay Employee for unused, accrued paid time off 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 Employee directs, in an amount equal to

$1,000,000.00 in coverage, 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) retirement investment plan pursuant to the terms of the plan, as the same may be modified from time to time; and

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

(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 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. Employee shall be provided with access to a country club in accordance with the Company's country club membership policy, as modified from time to time. The club membership itself shall belong to and be the property of the Company, not Employee.

(f) Stock Options. Employee acknowledges that on September 3, 2002, the Company granted Employee a stock option to purchase up to 75,000 shares of the common stock of Callaway Golf Company pursuant to the terms and conditions of the Stock Option Agreement of even date therewith.

(g) Relocation Reimbursement. The Company shall reimburse Employee for expenses incurred in relocating his residences from Paris, France and London, England to San Diego County, California, as set forth in the Relocation Letter Agreement attached hereto as Exhibit C. The total amount of the relocation reimbursement, including any gross-up for income tax purposes, and Company-paid moving expenses shall not exceed $296,000.00.

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. BUSINESS ISSUES.

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

(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. This obligation shall remain in effect while Employee is 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 Senior Vice President of Global Press and Public 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 19, Employee shall be entitled to Special Severance as described in Section 19 and Incentive Payments as described in Section 20.

(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, material 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 19, Employee shall be entitled to Special Severance as described in Section 19 and Incentive Payments as described in Section 20. "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 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 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 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) Termination by Mutual Agreement of the Parties. Employee's employment pursuant to this Agreement may be terminated at any time upon the mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

(g) 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 for an initial term of three (3) years commencing with the date the Change in Control was effective (the "Renewal Term"), with further extensions as provided in Section 1 of this Agreement.

(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). 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 Employee's permanent disability (defined in Section 8(d)), Employee's death, or 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 Chief Executive Officer 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. 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.

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

Company: Callaway Golf Company
2180 Rutherford Road
Carlsbad, California 92008
Attn: Steven C. McCracken
Senior Executive Vice President, Chief Legal Officer

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

17. 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. THE ARBITRATOR SHALL ALLOW REASONABLE DISCOVERY AS PROVIDED IN THE CALIFORNIA ARBITRATION ACT, BUT SHALL CONTROL THE AMOUNT AND SCOPE OF DISCOVERY.

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

THE PARTIES HAVE READ SECTION 17 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

______ (EMPLOYEE) ______ (COMPANY)

18. 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.

19. SPECIAL SEVERANCE.

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

(b) Conditions on Receiving Special Severance. Notwithstanding anything else to the contrary, it is expressly understood that any obligation of the Company to pay Special Severance pursuant to this Agreement shall be subject to: (i) Employee's continued compliance with the terms and conditions of Sections 7(b), 7(c), 7(e), 12, 13 and 17; and (ii) Employee shall 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.

20. INCENTIVE PAYMENTS.

(a) Terms and Conditions. Incentive Payments shall be equal to one-half of Employee's then-current base salary at the rate and on the same payment schedule in effect at the time of termination for a period of time equal to the greater of twelve (12) months from the date of termination or the remainder of any Renewal Term. Incentive Payments shall be conditioned upon Employee choosing not to engage (whether as an owner, employee, agent, consultant, or in any other capacity) in any business or venture that competes with the business of the Company or any of its affiliates. If Employee chooses to engage in such activities, then the Company shall have no obligation to make Incentive Payments for the period of time during which Employee chooses to do so.

(b) Sole Consideration. Employee and the Company agree and acknowledge that the sole and exclusive consideration for the Incentive Payments is Employee's agreement as described in subparagraph (a) above. In the event that subparagraph (a) is deemed unenforceable or invalid for any reason, then the Company will have no obligation to make Incentive Payments for the period of time during which it has been deemed unenforceable or invalid. The obligations and duties of this Section 20 shall be separate and distinct from the other obligations and duties set forth in this Agreement, and any finding of invalidity or unenforceability of this Section 20 shall have no effect upon the validity or invalidity of the other provisions of this Agreement.

21. TREATMENT OF SPECIAL SEVERANCE AND INCENTIVE PAYMENTS. Any Special Severance and Incentive Payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements. Except for the amounts specifically provided pursuant to Sections 8, 19 and 20, Employee shall not be entitled to any further compensation, bonus, damages, restitution, relocation benefits, or other severance benefits upon termination of employment. The amounts

payable to Employee pursuant to these Sections shall not be treated as damages, but as compensation to which Employee may be entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee pursuant to Sections 8, 19 and 20 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 Sections 8, 19 and 20 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.

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

EMPLOYEE	COMPANY
	Callaway Golf Company, a Delaware corporation
/s/ Patrice Hutin ___________________________________ Patrice Hutin	/s/ Ronald A. Drapeau By: ___________________________________ Ronald A. Drapeau Chairman of the Board, President and Chief Executive Officer
Dated: ____________________________	Dated: ____________________________

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Employee's 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 a nationally recognized public accounting firm selected by the Company, consistent with the Company's policies and applicable law (hereinafter referred to as the "Accounting Firm"). 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/her 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 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 Employee, in which case the Company shall pay the net balance of the Gross-Up Payment (after deduction of such Excess Tax payment) to 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 compete 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.

EXHIBIT C

RELOCATION LETTER AGREEMENT

Dear Patrice,

Congratulations on your new assignment and upcoming relocation with Callaway Golf. This is an exciting time for you and your family. With that in mind, we assembled a package of relocation benefits for you that:

- Provides both resources and monetary assistance with relocation expenses.

- Supports you and your family as you make this transition.

The attached document explains your relocation benefits and the process.

Callaway Golf is working with TranSafari to assist you in coordinating your relocation. TranSafari has assigned Sunday Lopez as your primary point of contact throughout the relocation process. She will coordinate service providers, answer any questions you may have, and provide you with the information you need to support you during this important transition. On the Company side, Dawn Harrington and I can assist you with any questions about your relocation benefits, or help resolve any issues that may arise.

Please demonstrate your understanding and acceptance of these relocation benefits by signing a copy of this letter and returning it to me.

We look forward to working with you Patrice.

Sincerely,

Ann Muller
Director, Human Resources

Agreed:

____________________________	____________________
Patrice Hutin	Date

DESCRIPTION OF RELOCATION BENEFITS

Your move must be completed within one year from the date you receive authorization to work in the United States. All eligible expenses must be submitted for reimbursement within this timeframe. If you voluntarily cancel your move, all relocation payments will cease

In accordance with the specific benefit levels and programs defined in this Agreement, Callaway Golf will provide assistance and/or reimbursement for the following expenses:

MOVING EXPENSES

You will be provided with moving services best suited to provide you with quality service based on your point(s) of origin and destination. Once a moving service is selected, a representative will be contacting you to arrange for a pre-move survey. This person will work with you in all subsequent scheduling of packing, moving, delivery and unpacking. We will also pay for insurance during transport and storage.

There are three separate moves included in your relocation:

- England to the U.S. to temporary housing or storage (one shipment)

- France to the U.S. to temporary housing or storage (one shipment, to be combined with your UK container)

- Temporary housing and/or storage to your permanent residence (up to two shipments)

Payment for moving services and insurance will be direct billed to Callaway Golf and is non-taxable.

Please note that the following expenses and services are not covered:

- Shipment of hazardous materials such as explosives, chemicals, flammable materials or firearms.

- Shipment of firewood, lumber or other building materials.

- Valuables such as jewelry, currency, dissertations or publishable papers, collectibles or items of extraordinary value.

- Shipment of plants, food, or other perishables.

- Removal, disassembly, or installation of carpeting, drapery rods, storage sheds or other permanent fixtures.

- Shipment of recreational vehicles including snowmobiles and boats. Unusually heavy or cumbersome hobby materials, or inoperable automobiles.

- Satellite dishes.

- Voluntary tips to movers.

- Maid or cleaning service.

This list is not all-inclusive, and you should discuss any specific questions around what you may or may not ship with the carrier.

Insurance at full replacement value is provided for your personal property while in transit to a maximum of $100,000 coverage. The insurance does not cover: jewelry, bills, deeds, evidence of debt, currency, letters of credit, passports, airline or other tickets, securities, items of extraordinary value, including collections. Please consult with your carrier regarding these or any other high value items, including tax and bank records.

Additional insurance is at your expense, so please consult your personal insurance policy representative for an explanation of coverage for items in transit, as well as coverage for vacant property at the former and/or new locations, if applicable. If you believe additional insurance above the $100,000 limit is required for your belongings, please contact Human Resources.

STORAGE FEES
Depending on when you decide to purchase a permanent residence, Callaway Golf will pay on your behalf, up to eight (8) months of temporary storage. Payment for moving services and storage for the first 30 days is non-taxable, and thereafter, is considered taxable income. Tax assistance up to (7) months storage will be provided. Storage fees will be direct billed to Callaway Golf.

LEASE CANCELLATION
Callaway Golf will reimburse you for termination fees for canceling the lease on your apartment in England. Reimbursement will be coordinated through Callaway Golf and is considered taxable income. Tax assistance will be provided.

HOME SALE ASSISTANCE AND TEMPORARY HOUSING EXPENSES
For the time being, you have decided to keep your home in France, and we appreciate that this is a personal decision. Therefore, we have prepared two (2) options for your consideration. Please let us know which one best meets your needs on or before December 15, 2002.

OPTION 1: Within one year, if you choose to sell your home in France to a third party, you will receive reimbursement for commission and closing costs associated with the sale of that property. You will maintain responsibility for all utilities and maintenance of the property in France until it is sold. Callaway Golf will reimburse you for up to eight (8) months of temporary housing expenses, to include utilities (but excluding renter's insurance). Reimbursement will be coordinated through Callaway Golf and is considered taxable income. Tax assistance will be provided.

OPTION 2: If you decide to sell your home in France in order to purchase a new residence in the U.S., but you are unable to sell your home in order to complete the purchase on your new U.S. residence, Callaway Golf will purchase your home for fair market value, and give you three (3) months temporary housing paid for by Callaway Golf. Under this scenario, you will not receive reimbursement for commission and closing costs associated with the sale of your home in France, and all resale profits, if any, will be retained by Callaway Golf.

To determine what constitutes fair market value, TranSafari will provide you with a list of qualified relocation appraisers. The list includes appraisers who are continuously monitored and evaluated for accuracy, timeliness, and professionalism. You will be asked to select three (3) appraisers from the list (you may not select an appraiser who has appraised your home within the last six (6) months). One will serve as an alternate in case one of the others is unavailable or in case a third appraisal is needed. Notify TranSafari of your choices, and they will order two (2) appraisals using the appraisers you have selected. In turn, each appraiser will contact you (or the person you designate) to schedule an appointment.

The appraisers will determine the Anticipated Sales Price of your home; the price at which the property is anticipated to sell in a competitive and open market, assuming an arm's length transaction. In estimating the sales price, the appraisers will look at competing listings, recent comparable sales, and other market variables through the eyes of a typical buyer.

In conjunction with the appraisal process, TranSafari will order all appropriate inspections for your area. Other inspections may be ordered, as recommended by the appraisers, Realtors, or inspectors. The Appraised Value Offer cannot be released without the results of all inspections.

The appraisers will contact TranSafari with the results of their appraisals and will follow up with written appraisal reports. The reports will be reviewed for accuracy and consistency. Approximately three (3) weeks from the date the last appraiser visits your home, TranSafari will contact you to present the Appraised Value Offer and all inspection results.

The Appraised Value Offer will be the average of the two (2) appraisals performed on your home. If the two (2) appraisals differ by more than five percent (5%), a third appraisal will be ordered (using the alternate appraiser you have selected). In this case, the Appraised Value Offer will be the average of the two (2) closest appraisals.

You will have 60 days to accept the offer starting upon the day the Appraised Value Offer is communicated to you. Contracts of Sale, a deed package, and all necessary documents required to sell your home to Callaway Golf will be forwarded to you. Execution and notarization of these documents will be required if you elect to accept the Appraised Value Offer.

If you wish to remain in your home after acceptance of the Appraised Value Offer, you may do so for up to 30 days from the date of your acceptance. Please be aware that TranSafari will be marketing the property on behalf of Callaway Golf during the time you remain in the home. Your cooperation in keeping it in order and scheduling showings is expected and appreciated.

Callaway Golf will assume responsibility of all mortgage payments, utilities, and maintenance as of the date of possession. Possession is defined as the day you contract or vacate, whichever is later. Before possession, all expenses will remain your responsibility.

Your equity will be the Appraised Value Offer minus the mortgage balance, mortgage interest prorations, tax prorations, costs of any repairs and all other liens against the property.

Disclosure: it is the duty of the seller to make known or public to a buyer the condition of the property, particularly any defect that could affect its value, habitability, or desirability. If you do not disclose complete and accurate information that is subsequently discovered, you may be held responsible for all expenses involved in correcting the defect(s) and any possible litigation.

RENTING/LEASING BACK THE HOME IN FRANCE (OPTION 2 ONLY)

If you choose Option 2 as described under Home Sale Assistance in this Agreement, and you find it necessary to lease back the home in France until June, 2003, then Callaway Golf will obtain a recommendation from a Real Estate professional to determine the market rate for rental value of the property. Callaway Golf will rent back the property to you at the current market rate until such time the home can be sold, and the new owner takes possession. Callaway Golf will continue to actively market the property, and will include a rent back contingency clause as a condition of sale to all prospective buyers, that states the home must be leased back to us through June, 2003 if the home is purchased prior to that date. Serving in the capacity of a lessor, Callaway Golf will require prepayment of the last month's rent, and a reasonable security deposit, to be determined. A separate agreement will be prepared for Callaway Golf's and your signatures in the event you decide to lease back the home in France after selling it to us. Please note that a condition of any rental agreement will require the tenant's cooperation in keeping the home in order as well as cooperation in scheduled showings.

HOME FINDING TRIPS

To assist you in this phase of your move, you and your spouse are eligible for two (2) home finding trips to the new location (business class travel). You will be reimbursed the actual and reasonable costs for the following:

- Two (2) trips to the new location, not to exceed a total of seven (7) days (six (6) nights lodging)

- Transportation, lodging and meal expenses

- One child may accompany parents on two (2) trips

- - Rental Car

Reimbursement will be coordinated through Callaway Golf and is considered taxable income. Tax assistance will be provided.

HOME PURCHASE

There are numerous expenses associated with the closing of a new home in California. Callaway Golf will arrange for you to be reimbursed for most typical buyer's expenses in your new location. The following criteria must be met for reimbursement:

- Your new home purchase must occur within one year of your effective date of authorization to work in the U.S.

- Fees and charges most commonly covered include:

- Reasonable legal fees and disbursements or conveyance taxes, title insurance, notary and conveyance fees, escrow/ attorney's fees, inspections such as pest, structural/mechanical, water/well, septic, and radon

- Mortgage application fee

- Loan origination and points up to one percent (1%) of the mortgage amount. Should the mortgage interest rate exceed 8.01%, loan fees are increased by one percent (1%). [The interest rate used will be based upon the FNMA posted yield on the thirty-year mortgage commitment (priced at par), for delivery within sixty days. This rate is published daily in the "Money Rates" section of the Wall Street Journal.]

The following costs will NOT be reimbursed:

- Buydown points or fees, other than the terms listed above

- Property tax, insurance or interest

- Expenses normally charged to the seller

- Soil Reports (Geological Surveys)

- Home Warranty Insurance Program

- Private Mortgage Insurance

- Improvement Assessments by State, City, County taxing authorities

- Homeowner's Association Dues/Assessments

Reimbursement of the approved buyer's closing costs will be coordinated by Callaway Golf and will be considered taxable income. Loan origination fees /discount points are considered tax deductible and WILL NOT BE tax-assisted. The remaining closing costs WILL BE tax-assisted.

AUTO LEASE/RENTAL

As you will not have transportation on arrival, Callaway Golf will reimburse you for a total of six (6) months combined reimbursements for auto lease and rental, as follows:

- Full reimbursement for automobile rental up to two (2) months.

- Up to $500 per month for automobile rental, lease or purchase for up to four more (4) months.

As your spouse will also require transportation, we will pay for up to two (2) month's rental for an automobile for her use. Reimbursement will be coordinated through Callaway Golf and is considered taxable income. Tax assistance will be provided.

MISCELLANEOUS RELOCATION EXPENSE PAYMENT

The relocation benefits described in this document cover most expenses associated with your move. However, to offset other expenses, Callaway Golf will provide you with a miscellaneous relocation expense allowance payment. No receipts are required. The Miscellaneous Allowance is a one-time payment equal to one month's salary based upon your new salary.

The Miscellaneous Allowance is to be used to cover all expenses that are otherwise not described in this document as reimbursable. Examples of some items not reimbursed by Callaway Golf that may be covered with the Miscellaneous Allowance are:

- Driver's License/Automobile Registration
- Carpet Purchase/Installation
- Drapery Purchase/Installation
- Pet Boarding
- Cable Hook-Up
- Utility Hook-Up/Installation
- Cleaning of Former or New Residence
- Trash Removal
- Non-reimbursable home sale and/or home purchase expenses
- Shipment of items not covered under the movement of the household goods program
- Voluntary tips to movers
- Renter's insurance
- Tuition

The Miscellaneous Allowance is considered taxable income, and tax assistance will be provided.

EXPENSE REIMBURSEMENT

Callaway Golf will reimburse your relocation expenses. Please use the relocation reimbursement forms provided. The forms must be complete, with original receipts attached and signed in ink by you. Submitting your relocation reimbursement forms weekly should ensure an easy cash flow for your personal finances during this transitional time.

Submit all completed relocation reimbursement forms to:

Dawn Thompson
Callaway Golf Payroll Department

FINAL MOVE

You will be reimbursed for the one-way business class travel incurred by yourself, your spouse and legal dependents associated with your final move. Airfare must be coordinated through Callaway Golf's Travel Department.

TAX ASSISTANCE
The IRS considers all those expenses paid to you, or on your behalf, as compensation except those expenses associated with:

- Sale of your home

- Household goods shipment

- Thirty (30) days of household goods storage

- Final move expenses, excluding meals

Reimbursement payments will appear on your W-2 for the year that the payment was disbursed to you. Payments that are considered taxable income are subject to tax withholding in compliance with IRS regulations. To help minimize your tax burden and to assist with the additional federal, state, and Medicare tax liability that results from the reimbursed moving expenses, Callaway Golf will provide tax assistance on many of the payments made to you. Those payments that are not tax-assisted are identified as such in this document, as well as noted on the tax summary information table located on the following page. The tax assistance is based on taxable payments, other Company income and your filing status.

We encourage you to continue working with Price Waterhouse Cooper (PWC), and Callaway Golf will pay PWC for tax return preparation for the tax years 2002 and 2003. In addition, we have retained AYCO Financial Services as part of our Executive benefits package, and we strongly encourage you to take advantage of this benefit. In addition to coordinating with PWC, they will also provide you with comprehensive financial planning services to meet your specific needs.

Please note the following:

- It is imperative that you keep records and receipts of all your expenses to manage the tax return filing process at year end.

- A year end tax statement that will itemize all your relocation expenses will be prepared and sent to you by January 31 for the tax year(s) after your move. As it is likely you will receive relocation benefits for tax year 2002 and 2003, you will receive statements in January, 2003 for your 2002 relocation benefits and in January, 2004 for relocation benefits paid in 2003. You will receive tax assistance at the time the statement is prepared.

- Consult a professional tax advisor for details on the tax implications of your relocation. Along with seeking the assistance of a professional tax advisor, consider reading the following IRS information guides:

    - Publication 521 - Moving Expenses

    - Publication 523 - Tax Information on Selling Your Home.

    - Publication 530 - for first time home sellers.

  To order these guides or necessary tax forms call 1-800-TAX-FORM.

EXHIBIT 10.9

AMENDED AND RESTATED
EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

WHEREAS there is a certain Executive Officer Employment Agreement (the "Employment Agreement") entered into as of September 1, 2000, by and between Callaway Golf Europe Ltd. ("Callaway Golf Europe"), a United Kingdom corporation and wholly owned subsidiary of Callaway Golf Company (the "Company"), a Delaware corporation, and Ian B. Rowden ("Employee");

WHEREAS the Employment Agreement was assigned to the Company and amended pursuant to the Assignment Of And First Amendment To Executive Officer Employment Agreement made effective October 16, 2000;

WHEREAS a new Executive Officer Employment Agreement (the "New Employment Agreement") to be effective January 1, 2002, was offered by the Company to Employee, but not accepted by Employee; and

WHEREAS instead of executing the New Employment Agreement the parties wish to further amend the Employment Agreement, as assigned and amended, by entering into this Amended And Restated Executive Officer Employment Agreement (the "Restated Employment Agreement"), which shall supercede and replace the Employment Agreement, as assigned and amended, in its entirety.

NOW THEREFORE this Restated Employment Agreement is entered into as of October 1, 2002, by and between the Company and Employee.

1. TERM OF EMPLOYMENT.

(a) The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Restated Employment Agreement for the period commencing October 1, 2002 and terminating December 31, 2003 (the "Term"), unless Employee's employment pursuant to this Restated Employment Agreement is earlier terminated as hereinafter provided. Unless Employee's employment pursuant to this Restated Employment Agreement has been earlier terminated, at the close of business on December 31, 2003, without further action or notice on the part of either party, Employee's employment with the Company shall end and Employee shall cease to be an employee or officer of the Company without the payment of any further severance, benefits, compensation, claim or other consideration except as provided herein.

2. SERVICES.

(a) Employee shall serve as Executive Vice President of the Company, and shall report to the Chief Executive Officer. Employee's duties shall be those as are assigned to Employee from time to time by the Chief Executive Officer, provided that such duties and assignments are commensurate with Employee's training and experience and do not make it unreasonably difficult for Employee to maintain the principal residence he has established in Encinitas, California.

(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 Restated Employment Agreement are unique and intellectual in character and that Employee and the Company are entering into this Restated Employment

Agreement so that the Company will have the exclusive benefit of those services during the term of the Restated Employment Agreement.

3. SERVICES.

(a) Subject to the provisions of subsection 3(b) below, during the term of this Restated Employment Agreement Employee agrees to devote his or her full productive time and best efforts to the performance of Employee's duties hereunder. 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.

(b) Nothing contained in subsection 3(a) above shall be deemed to preclude Employee from having outside personal investments and involvement with appropriate community activities, or from devoting a reasonable amount of time to such matters, provided that this shall in no manner interfere with or derogate from Employee's work for the Company. Moreover, the Company is aware that Employee will be seeking other employment during the Term of this Restated Employment Agreement, and will make reasonable accommodations to permit Employee personal time to conduct such search.

4. COMPENSATION. While employed by the Company pursuant to this Restated Employment Agreement, the Company agrees to compensate Employee as follows:

(a) The Company agrees to pay Employee a base salary at the rate of $400,000.00 per year, payable in bi-weekly installments.

(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. While employed by the Company pursuant to this Restated Employment Agreement, the Company agrees to provide the following benefits to Employee:

(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. 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. Employee shall be provided with access to a country club in accordance with the Company's country club membership policy, as modified from time to time. 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 Restated Employment 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, whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity, engage in any business or venture which engages 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 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 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. Employee understands that it is the policy of the Company that only the Chief Executive Officer, the Senior Vice President, Global Press and Public 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 a Party's Convenience. Employee's employment under this Restated Employment Agreement may be terminated by either party hereto at its convenience at any time. In the event of a termination for a party's 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 receive Special Severance equal to (i) severance payments equal to Employee's then current salary, paid at the same rate and on the same schedule as in effect at the time of termination, through December 31, 2003; (ii) the payment of premiums owed for COBRA insurance benefits through December 31, 2003; and (iii) no other severance.

(b) Termination by the Company for Substantial Cause. Employee's employment under this Restated Employment 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, material breach of this Restated Employment 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 Restated Employment 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 receive Special Severance equal to (i) severance payments equal to Employee's then current salary, paid at the same rate and on the same schedule as in effect at the time of termination, through December 31, 2003; (ii) the payment of premiums owed for COBRA insurance benefits through December 31, 2003; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection a material breach of this Restated Employment Agreement by the Company.

(d) Termination Due to Permanent Disability. Subject to all applicable laws, Employee's employment under this Restated Employment 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 Restated Employment 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 salary, paid at the same rate and on the same schedule as in effect at the time of termination, through December 31, 2003; (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 through December 31, 2003; 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 Restated Employment 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, paid at the same rate and on the same schedule as in effect at the time of death, through December 31, 2003, whichever is shorter; (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 Restated Employment 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 Restated Employment 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.

9. 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 offices 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.

10. 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.

11. TRADE SECRETS AND CONFIDENTIAL INFORMATION.

(a) As used in this Restated Employment 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 Restated Employment 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 11(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 Restated Employment 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 11 shall survive the termination or expiration of this Restated Employment Agreement, and shall be binding upon Employee in perpetuity.

12. ASSIGNMENT OF RIGHTS.

(a) As used in this Restated Employment 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, distribution and management of the Company's and/or its affiliates' products.

(b) As a material part of the terms and understandings of this Restated Employment 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 Restated Employment 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 Restated Employment 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 Restated Employment 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 Restated Employment 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 Restated Employment 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 12 shall survive the termination or expiration of this Restated Employment Agreement, and shall be binding upon Employee in perpetuity.

13. ASSIGNMENT. This Restated Employment 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 Restated Employment Agreement, it being understood that this Restated Employment Agreement is personal to Employee.

14. ENTIRE UNDERSTANDING. This Restated Employment 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 Restated Employment Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Restated Employment Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

15. 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: Ian B. Rowden
____
____

Company: Callaway Golf Company
2180 Rutherford Road
Carlsbad, California 92008
Attn: Steven C. McCracken
Senior 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.

16. 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 RESTATED EMPLOYMENT 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. THE ARBITRATOR SHALL ALLOW REASONABLE DISCOVERY AS PROVIDED IN THE CALIFORNIA ARBITRATION ACT, BUT SHALL CONTROL THE AMOUNT AND SCOPE OF DISCOVERY.

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

THE PARTIES HAVE READ SECTION 16 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

______ (EMPLOYEE)   ______ (COMPANY)

17. MISCELLANEOUS.

(a) Headings. The headings of the several sections and paragraphs of this Restated Employment 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 Restated Employment 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 Restated Employment 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 Restated Employment Agreement is or are held invalid, the remaining provisions of this Restated Employment 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. This right shall continue throughout the time Employee is employed by the Company, and shall continue thereafter with respect to materials created and in use as of the last day Employee is employed by the Company.

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

18. Release of Claims - General Release.

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

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

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

(d) Although the Company grants no release of claims to Employee pursuant to this Restated Employment Agreement, the Company acknowledges that as of the effective date of this Restated Employment Agreement it is not aware of or contemplating any claim or claims against Employee.

19. SUPERSEDES OLD EMPLOYMENT AGREEMENT. Employee and the Company recognize that prior to the effective date of this Restated Employment Agreement they were parties to the Employment Agreement, as assigned and amended. It is the intent of the parties that as of the effective date of this Restated Employment Agreement, this Restated Employment Agreement shall replace and supersede the Employment Agreement entirely, that the 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 Employment Agreement and this Restated Employment Agreement, this Restated Employment Agreement shall control and all agreements shall be construed so as to give the maximum force and effect to the provisions of this Restated Employment 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 Restated Employment 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), 11, 12 and 16;

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

(d) If employment is terminated pursuant to Section 8(a) of the Restated Employment Agreement, payment of any and all Special Severance pursuant to this Restated Employment Agreement is expressly conditioned upon Employee's execution, without subsequent revocation, of a release in the form attached hereto as Exhibit B, effective as of the date on which employment is terminated.

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 of 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 Restated Employment Agreement to be executed effective the date first written above.

EMPLOYEE	COMPANY Callaway Golf Company, a Delaware corporation
/s/ Ian B. Rowden - ------------------------------ Ian B. Rowden	By: /s/ Ronald A. Drapeau ------------------------------ Ronald A. Drapeau President and Chief Executive Officer

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Employee's Amended and Restated 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 compete 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.

RELEASE OF CLAIMS - GENERAL RELEASE

This Release of Claims - General Release ("Release") is effective as of the date provided for in section 10 below, and is made by and between IAN B. ROWDEN ("Employee") and CALLAWAY GOLF COMPANY (the "Company"), a Delaware corporation. It is entered into in light of the fact that effective _________, Employee's employment with the Company will terminate pursuant to the terms of the Amended and Restated Executive Officer Employment Agreement entered into effective October 1, 2002 (the "Restated Employment Agreement").

1. Consideration. In consideration for the Special Severance made available to Employee pursuant to the Restated Employment Agreement, Employee agrees to the terms and provisions set forth in this Release.

2. Release.

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

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

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

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

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

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

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

6. IRREVOCABLE ARBITRATION OF DISPUTES.

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

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

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

(D) THE ARBITRATION SHALL BE 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.

(G) THE ARBITRATION WILL BE DECIDED UPON A WRITTEN DECISION OF THE ARBITRATOR

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

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

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

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

______ (EMPLOYEE)   ______ (COMPANY)

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

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

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

Steven C. McCracken
Senior Executive Vice President, Chief Legal Officer
Callaway Golf Company
2180 Rutherford Road
Carlsbad, CA 92008

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

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

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

EMPLOYEE	COMPANY CALLAWAY GOLF COMPANY, a Delaware corporation
/s/ Ian B. Rowden - ------------------------------- Ian B. Rowden	By: /s/ Ronald A. Drapeau ------------------------------- Ronald A. Drapeau Chairman of the Board, President and Chief Executive Officer
Dated: --------------------------	Dated: ----------------------------

EXHIBIT 10.11

SEPARATION AGREEMENT AND GENERAL RELEASE

This Separation Agreement and General Release ("Agreement") is made as of August 31, 2002, by and between MICHAEL W. MCCORMICK ("Employee") and CALLAWAY GOLF COMPANY (the "Company"), a Delaware corporation, with respect to the following:

A. Employee has been employed by the Company pursuant to the First Amended Executive Officer Employment Agreement effective June 1, 2002 ("Employment Agreement"). The Company has decided to terminate Employee's employment, and has so notified Employee.

B. The Company and Employee desire to enter into this Agreement to arrange for a mutually agreeable termination of Employee's employment with the Company pursuant to the terms of the Employment Agreement, and to provide for a smooth transition between the effective date of this Agreement and the date on which Employee's employment actually terminates.

NOW, THEREFORE, the parties agree as follows:

1. Termination of Employment. Pursuant to Section 8(a) of the Employment Agreement, Employee's employment with the Company shall terminate, automatically and without further action by any party, on December 31, 2002. Upon the termination of his employment, Employee shall be entitled to receive such severance as provided in the Employment Agreement, on the terms and conditions as provided therein. Subject to the terms and conditions of the Employment Agreement, these benefits include:

(a) Severance as provided for in Section 8(a) of the Employment Agreement, which is:

(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 termination.

(b) Special Severance as provided in Section 19 of the Employment Agreement, and subject to the provisions of Section 19, which is:

(i) severance payments equal to one-half of Employee's then current base salary at the same rate and on the same payment schedule as in effect at the time of termination for a period of twelve (12) months from the date of termination (i.e., through December 31, 2003); and

(ii) the payment of premiums owed for COBRA insurance benefits for a period of twelve (12) months from the date of termination (i.e., through December 31, 2003).

(c) Incentive Payments as provided for in Section 20 of the Employment Agreement, and subject to the provisions of Section 20, which are equal to one-half of Employee's then current base salary at the same rate and on the same payment schedule as in effect at the time of termination for a period of twelve (12) months from the date of termination (i.e., through December 31, 2003).

2. Transition Period. Employee shall remain employed by the Company pursuant to the Employment Agreement and this Agreement through December 31, 2002 (the "Transition Period"). During the Transition Period, Employee agrees to perform such duties as may be reasonably specified by the Chief Executive Officer, Ron Drapeau. Employee shall be entitled to participate in employee benefits for which he is eligible during the Transition Period. Except as specifically requested by Mr. Drapeau or his designee, Employee is directed pursuant to Section 8(g) of the Employment Agreement to cease any and all activities on behalf of the Company and its affiliates and remain off the Company's premises during the Transition Period.

3. Additional Severance Pursuant to This Agreement. In consideration for the release of claims as set forth in Section 5 of this Agreement, Employee's resignation as an officer and director effective August 31, 2002, as set forth in Section 6 of this Agreement, Employee's specific acknowledgement of Section 7 of this Agreement, and Employee's performance pursuant to this Agreement as a whole, Employee and the Company agree to the following:

(a) Forbearance. The Company shall not otherwise exercise its rights to terminate Employee's employment pursuant to the terms of the Employment Agreement prior to December 31, 2002.

(b) Outplacement Service. Subject to Employee's continued compliance with the terms and provisions of the Employment Agreement and this Agreement, the Company shall provide Employee with six (6) months of outplacement service with a firm selected by the Company.

(c) Cellular Phone. The Company agrees to give Employee the cellular phone currently in his possession. Employee agrees to change the telephone number of the cellular phone promptly. Employee agrees that the cellular phone is valued at approximately $250.00.

(d) Golf Clubs. The Company agrees to allow Employee to keep the golf clubs loaned or otherwise provided to him in his past capacities as an officer of the Company.

4. Stock Options. The parties acknowledge that Employee holds certain options to purchase the Common Stock of the Company, and that those options are subject to the conditions and restrictions set forth in their respective stock option agreements, provided that, upon the approval of the Stock Option Committee (Employee Plans) of the Board of Directors of the Company, said stock option agreements for the following options shall be amended to provide that said options shall expire on May 30, 2004 in lieu of expiring one year after the termination of Employee's employment.

STOCK OPTION #	NUMBER OF SHARES	PRICE	NEW EXP.
2191	200,000	$ 16.6875	5/30/04
2602	100,000	$ 13.25	5/30/04
2674	50,000	$ 19.6875	5/30/04
3309	75,000	$ 16.56	5/30/04

The termination of Employee's employment shall not change such new expiration dates. No other extensions or other amendments have been made to any stock options granted to Employee by the Company.

5. Settlement and Release of Claims - General Release.

(a) In consideration for the additional severance set forth in Section 3 above, Employee hereby irrevocably and unconditionally releases and forever discharges the Company, its predecessors, successors, subsidiaries, affiliates and benefit plans, and each and every past, present and future officer, director, employee, representative and attorney of the Company, its predecessors, successors, subsidiaries, affiliates and benefit plans, and their successors and assigns (collectively referred to herein as the "Releasees"), from any, every, and all charges, complaints, claims, causes of action, and lawsuits of any kind whatsoever, including, to the extent permitted under the law, all claims which Employee has against the Releasees, or any of them, arising from or in any way related to circumstances or events arising out of Employee's employment by the Company, including, but not limited to, harassment, discrimination, retaliation, failure to progressively discipline Employee, termination of employment, violation of state and/or federal wage and hour laws, violations of any notice requirement, violations of the California Labor Code (including any law or regulation on timing of vacation payout), or breach of any employment agreement, together with any and all other claims Employee now has (as of the date this Agreement is signed by Employee) or may have against the Releasees through and including the Separation Date. EMPLOYEE ALSO SPECIFICALLY AGREES AND ACKNOWLEDGES THAT EMPLOYEE IS WAIVING ANY RIGHT TO RECOVERY AGAINST RELEASEES BASED ON STATE OR FEDERAL SEX, PREGNANCY, RACE, COLOR, NATIONAL ORIGIN, MARITAL STATUS, RELIGION, VETERAN STATUS, DISABILITY, SEXUAL ORIENTATION, MEDICAL CONDITION OR OTHER ANTI-DISCRIMINATION LAWS, INCLUDING, WITHOUT LIMITATION, TITLE VII, THE AMERICANS WITH DISABILITIES ACT, THE CALIFORNIA FAIR HOUSING AND EMPLOYMENT ACT, THE FAMILY MEDICAL LEAVE ACT, THE CALIFORNIA FAMILY RIGHTS ACT OR BASED ON THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OR THE WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT, ALL AS AMENDED, WHETHER SUCH CLAIM BE BASED UPON AN ACTION FILED BY EMPLOYEE OR A GOVERNMENTAL AGENCY. Provided, however that this Release shall not operate to waive any claim for indemnity that Employee may be permitted to assert under Delaware law or the by-laws of the Company.

(b) Employee also waives all rights under section 1542 of the Civil Code of the State of California. Section 1542 provides as follows:

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

6. Resignation as an Officer and Director; Relinquishment of Corporate Golf Club Membership.

(a) Effective August 31, 2002, Employee hereby agrees that he resigns as an officer and/or director of the Company, and any and all subsidiaries and affiliates of the Company, including the following:

Callaway Golf Company
Callaway Golf Sales Company

Callaway Golf Shell Company
Callaway Golf Company Foundation
Callaway Golf Canada Ltd.
Callaway Golf Europe Ltd.
Callaway Golf South Pacific

Employee hereby authorizes the above entities to take whatever actions may be necessary and appropriate to implement his resignation, and agrees to cooperate in the preparation, execution and filing of appropriate paperwork and documentation.

(b) Employee hereby relinquishes his right to a corporate golf club membership pursuant to his Employment Agreement, and authorizes the Company and its employees to take all appropriate steps to transfer or terminate Employee's current corporate membership at Del Mar Country Club immediately. Employee agrees to cooperate fully with the Company in the transfer of this privilege.

7. Non-Disparagement and Cooperation.

(a) The Company's obligations pursuant to this Agreement, including Section 3 above, are conditioned upon Employee's continued compliance with Sections 7(b), 7(c), 7(e), 12, 13 and 17 of the Employment Agreement through December 31, 2003.

(b) Should any issues pertaining to matters in which Employee had knowledge or was involved during his employment arise during the period that Employee is receiving any consideration pursuant to the Employment Agreement or this Agreement, including the benefit arising from any stock option extension, Employee agrees to cooperate, in a timely manner, with the Company's reasonable requests for assistance.

8. Substantial Cause. Employee understands that the Company retains its right to terminate this Agreement at any time for Substantial Cause. "Substantial Cause" shall mean, for purposes of this Agreement, a material breach of this Agreement or the Employment Agreement.

9. The Company's Proprietary Information and Inventions.

(a) Employee acknowledges and understands that Sections 12 and 13 of the Employment Agreement extend beyond the terms of Employee's employment with the Company. Employee agrees to comply with such terms. Employee understands that his failure to adhere to Sections 12 and 13 of the Employment Agreement shall be a material breach of this Agreement, as well as the Employment Agreement.

(b) Employee specifically understands and agrees that Employee shall not disclose confidential information regarding the administration of the Company's business and sales policies. Any training received by Employee from the Company's Legal Department on Company policies is subject to the attorney-client privilege and shall not be disclosed to anyone without the Company's express written permission. In the event that Employee is contacted by any person or agency with respect to the administration of any of the Company's business or sales policies, Employee agrees to immediately contact the Legal Department of Callaway Golf.

10. No Admission of Liability. This Agreement affects the resolution and release of claims which are denied and contested, and this Agreement shall not be construed as an admission by a party of any liability of any kind to the other party.

11. Governing Law. This Agreement shall be interpreted and enforced in accordance with the internal laws of the State of California.

12. Binding Effect. This Agreement shall be binding upon and benefit the parties hereto and their respective heirs, personal representatives, successors and assigns.

13. Confidential Settlement. Except as required by law or as otherwise disclosed by the Company, Employee agrees not to disclose the terms and conditions of this Agreement to any third party except Employee's spouse, attorney, accountant and financial advisor.

14. Return of Company Property. Except as provided in this Agreement, Employee represents that he has returned all Company property.

15. Knowing and Voluntary Agreement. Employee has carefully read and fully understands all of the provisions of this Agreement. Employee knowingly and voluntarily agrees to all the terms in this Agreement. Employee knowingly and voluntarily intends to be legally bound by this Agreement.

16. Separate Terms. Each term, condition, covenant or provision of this Agreement shall be viewed as separate and distinct, and in the event that any such term, covenant or provision shall be held by a court of competent jurisdiction to be invalid, the remaining provisions shall continue in full force and effect.

17. 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 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 17 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

______ (EMPLOYEE)   ______ (COMPANY)

18. Advice of Counsel. The Company advises Employee to discuss this Agreement with an attorney before executing it, and Employee acknowledges that Employee has been advised by David J. Strauss of Strauss and Asher. Employee further acknowledges that the Company will provide Employee five (5) days within which to review and consider this Agreement before signing it. Should Employee decide not to use the full five (5) days, then Employee knowingly and voluntarily waives any claims that Employee was not given that period of time or did not use the entire five (5) days to consult an attorney or consider this Agreement.

19. Entire Agreement. This Agreement and the Employment Agreement constitute the entire agreement between the parties with respect to the subject matter hereof and may not be modified or amended, except by written agreement signed by all parties. This Agreement and the Employment Agreement shall be deemed to be consistent with each other, and this Agreement shall be deemed to be "another instrument in writing executed by the parties," pursuant to Section 16 of the Employment Agreement.

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

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

EMPLOYEE	COMPANY CALLAWAY GOLF COMPANY, a Delaware Corporation
/s/ Michael W. McCormick ______________________________	/s/ Steven C. McCracken By:______________________________
Michael W. McCormick	Steven C. McCracken Senior Executive Vice President, Chief Legal Officer

EXHIBIT 10.20

CALLAWAY GOLF COMPANY
1995 EMPLOYEE STOCK INCENTIVE PLAN

(AS AMENDED AND RESTATED NOVEMBER 7, 2001)

1. PURPOSES OF THE PLAN

The purpose of this 1995 Employee Stock Incentive Plan (the "Plan") of Callaway Golf Company, a Delaware corporation (the "Company"), is to provide for grants of stock options and other stock-based incentive awards to broad classes of employees of the Company and its Subsidiaries, thereby helping to retain and motivate such employees, and to encourage the judgment, initiative and efforts of such employees by further aligning their interests with those of the shareholders of the Company.

2. PLAN AWARDS

To carry out the purposes of the Plan, the Company will from time to time enter into various arrangements with persons eligible to participate therein and confer various benefits upon them. The following such arrangements or benefits are authorized under the Plan if their terms and conditions are not inconsistent with the provisions of the Plan: Stock Options, Restricted Stock, Sales of Securities, Stock Bonuses, Performance Shares, Performance Units, Stock Appreciation Rights, Phantom Stock, Dividend Equivalents and Other Stock-Based Benefits. Such arrangements and benefits pursuant to the Plan are sometimes herein referred to as "Awards." The authorized categories of benefits for which Awards may be granted are defined as follows:

STOCK OPTIONS: A Stock Option is a right granted under the Plan to purchase a specified number of shares of Common Stock at such exercise price, at such times, and on such other terms and conditions as are specified in the Award. A Stock Option may but need not (a) provide for the payment of some or all of the option exercise price in cash or by promissory note or by delivery of previously owned shares (including the technique known as "pyramiding") or other property or by withholding some of the shares that are being purchased; (b) include arrangements to facilitate the grantee's ability to borrow funds for payment of the exercise price; or (c) be an Incentive Stock Option.

RESTRICTED STOCK: Restricted Stock is Common Stock sold under the Plan (other than through the exercise of a Stock Option) at a substantial discount from its Fair Market Value or at its par value, but subject during specified periods of time to such restrictions on its transferability and repurchase rights as are expressed in the Award and as may constitute a substantial condition of forfeiture while in effect.

SALES OF SECURITIES: A Sale of Securities is a sale under the Plan of unrestricted shares of Common Stock or of debt or other securities that are convertible into shares of Common Stock upon such terms and conditions as may be established in the terms of the Award.

STOCK BONUSES: A Stock Bonus is the issuance or delivery of unrestricted or restricted shares of Common Stock under the Plan as a bonus for services rendered or for any other valid consideration under applicable law.

PERFORMANCE SHARES: A Performance Share is an Award that represents a fixed number of shares of Common Stock that vest at a specified time or over a period of time in accordance with performance criteria established in connection with the granting of the Award. Such criteria may measure the performance of the grantee, of the business unit in which the grantee is employed, or of the Company, or a combination of any of the foregoing. The vested portion of the Award is payable to the grantee either in the shares it represents or in cash in an amount equal to the Fair Market Value of those shares on the date of vesting, or a combination thereof, as specified in the Award.

PERFORMANCE UNITS: A Performance Unit is an Award that represents a fixed amount of cash that vests at a specified time or over a period of time in accordance with performance criteria established in connection with the granting of the Award. Such criteria may measure the performance of the grantee, of the business unit in which the grantee is employed, or of the Company, or a combination of any of the foregoing. The vested portion of the Award is payable to the grantee either in cash or in shares valued at their Fair Market Value on the date of vesting, or a combination thereof, as specified in the Award.

STOCK APPRECIATION RIGHTS: A Stock Appreciation Right is a right granted under the Plan to receive a payment that is measured with reference to the amount by which the Fair Market Value of a specified number of shares of Common Stock appreciates from a specified date, such as the date of grant of the Award, to the date of exercise. Payment of a Stock Appreciation Right may be made in cash or in shares valued at their Fair Market Value on the date of exercise, or a combination thereof, as specified in the Award. A Stock Appreciation Right may but need not be granted in tandem with a Stock Option and require the surrender of that Stock Option or a portion thereof in connection with the exercise of the Stock Appreciation Right.

PHANTOM STOCK: Phantom Stock is a cash bonus granted under the Plan measured by the Fair Market Value of a specified number of shares of Common Stock on a specified date, or measured by the excess of such Fair Market Value over a specified minimum, which may but need not include a Dividend Equivalent.

DIVIDEND EQUIVALENTS: A Dividend Equivalent is a right granted under the Plan to receive an amount in cash equivalent to the dividends that are paid, if any, on a specified number of shares of Common Stock during a certain period of time.

OTHER STOCK-BASED BENEFITS: An Other Stock-Based Benefit is any arrangement granted under the Plan not otherwise described above that (a) by its terms might involve the issuance or sale of Common Stock or (b) involves a benefit that is measured, in whole or in part, by the value, appreciation, dividend yield or other features attributable to a specified number of shares of Common Stock.

An Award may consist of one such arrangement or benefit or two or more of them in tandem or in the alternative. Subject to the provisions of the Plan, any Award granted pursuant to the Plan may contain such additional terms and provisions as those administering the Plan for the Company may consider appropriate. Among other things, any such Award may but need not also provide for (i) the satisfaction of any applicable tax withholding obligation by the retention of shares to which the grantee would otherwise be entitled or by the grantee's delivery of previously owned shares or other property and (ii) acceleration of vesting, lapse of restrictions, cash settlement or other adjustment to the terms of the Award in the event of a merger, sale of assets or change of control of the Company.

3. STOCK SUBJECT TO THE PLAN

The kind and maximum number of shares of stock that may be sold or issued under the Plan, whether upon exercise of Stock Options or in settlement of other Awards, shall be 10,800,000 shares of Common Stock (this number reflects all stock splits through November 7, 2001, and is subject to further adjustments set forth hereinbelow). If the outstanding shares of stock of the class then subject to the Plan are increased or decreased, or are changed into or are exchanged for a different number or kind of shares or securities or other forms of consideration, as a result of one or more recapitalizations, restructurings, reclassifications, stock splits, reverse stock splits, stock dividends or the like, appropriate adjustments shall be made in the number and/or kind of shares or securities or other forms of consideration which may thereafter be sold or issued under the Plan and for which Awards (including Incentive Stock Options) may thereafter be granted and for which outstanding Awards previously granted under the Plan may thereafter be exercised or settled.

If, on or before termination of the Plan, any shares of Common Stock subject to an Award shall not be issued or transferred and shall cease to be issuable or transferable for any reason, or if such shares shall have been reacquired by the Company pursuant to restrictions imposed on such shares under the Plan or the terms of an Award, the shares not so issued or transferred and the shares so reacquired shall no longer be charged against the limitation provided for in this Section 3 and may be again made the subject of Awards under the Plan. The shares of stock sold or issued under the Plan may be obtained from the Company's authorized but unissued shares, from reacquired or treasury shares, or from outstanding shares acquired in the market or from private sources.

4. ADMINISTRATION OF THE PLAN

(a) The Plan shall be administered by the Board of Directors of the Company (the "Board") or, in the discretion of the Board, a committee appointed thereby (the "Committee"). Subject to the provisions of the Plan, the Board, or the Committee, shall have full and final authority in its discretion to select the eligible persons to whom Awards shall be granted hereunder, to grant such Awards, to determine the terms and provisions of such Awards and the number of shares to be sold or issued pursuant thereto. The Board (and the Committee) shall also be empowered with full and final authority to adopt, amend, and rescind such rules and regulations as, in its opinion, may be advisable in the administration of the Plan. The Board or the Committee, as the case may be, may delegate to Company officers or others its authority with respect to any Awards that may be granted to eligible persons under the Plan, subject to applicable legal requirements. The interpretation and construction by the Board or the Committee of any term or provision of the Plan or of any Award granted thereunder shall be final and binding upon all participants in the Plan.

(b) Pursuant to the authority described above, the Board or the Committee may adopt such amendments to, and rules and regulations governing, the Plan as may be considered advisable for purposes of compliance with applicable federal or state securities laws. The Board of Directors has established the following rules applicable to all Awards made pursuant to the Plan: No Award granted hereunder (other than an Award expressly granting unrestricted shares) may be transferred by the grantee except (i) by will or the laws of descent and distribution, (ii) upon dissolution of marriage pursuant to a qualified domestic relations order or division of community or marital property or (iii) with the express written approval of the Board or Committee in its sole discretion. No such permitted transfer shall, by itself, affect any vesting restrictions that then apply to the Award.

(c) The Company may assist any person to whom an Award is granted hereunder in the payment of the purchase price or other amounts payable in connection with the receipt or exercise of that Award, by lending such amounts to such person on such terms and at such rates of interest and upon such security (if any) as shall be approved by the Board or the Committee.

5. PERSONS ELIGIBLE TO PARTICIPATE

Any person who is an employee, consultant or advisor of the Company or any of its Subsidiaries and who is not an Executive Officer or director of the Company may be eligible to be considered for the grant of Awards under the Plan, as determined by the Board or the Committee in its discretion.

6. PLAN EFFECTIVENESS AND DURATION

The Plan shall become effective as of the date designated by the Board. Unless previously terminated by the Board, the Plan shall expire ten years after its effective date, but such expiration shall not affect any Award previously made or granted that is then outstanding.

7. AMENDMENT AND TERMINATION

The Board may amend, alter or discontinue the Plan or an agreement evidencing an Award granted under the Plan, but no amendment or alteration shall be made that would affect any Award previously made or granted that is then outstanding, without the grantee's consent; provided, however, that no such consent shall be required if the Board determines in its sole discretion that such amendment or alteration is not reasonably likely to significantly diminish the benefits provided under such Award or that any such diminishment has been adequately compensated. Notwithstanding the foregoing, if an amendment to the Plan would affect the ability of any Stock Options granted under the Plan to comply with Section 422 or other applicable provisions of the Internal Revenue Code (the "Code"), and if the Committee determines that it is necessary or desirable for any Stock Options theretofore or thereafter granted that are intended to comply with any such provision to so comply, or otherwise is required under any applicable law, rule or regulation, the amendment shall be approved by the Company's shareholders to the extent required for such Stock Options to continue to comply with Section 422 of the Code, or other applicable provisions of or rules under the Code.

8. CERTAIN DEFINITIONS

The authorized categories of benefits for which Awards may be granted under the Plan are defined in Section 2 above. In addition, the following terms used in the Plan shall have the following meanings:

COMMON STOCK: Common Stock is the Company's common stock, as constituted on the effective date of the Plan, and as thereafter adjusted as a result of any one or more events requiring adjustment of outstanding Awards under Section 3 above.

EXECUTIVE OFFICER: An Executive Officer of the Company shall be as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934.

FAIR MARKET VALUE: The Fair Market Value of shares of stock shall be calculated (a) during such time as the Company is not a publicly-traded company, by the Board based on its good faith determination, and (b) at such times as the Company is publicly-traded, on the basis of the closing price of stock of that class on the day in question (or, if such day is not a trading day in the U.S. securities markets, on the nearest preceding trading day), as reported with respect to the principal market (or the composite of the markets, if more than one) in which such shares are then traded; or, if no such closing prices are reported, on the basis of the mean between the high bid and low asked prices that day on the principal market or national quotation system on which such shares are then quoted; or, if not so quoted, as furnished by a professional securities dealer making a market in such shares selected by the Board or the Committee; or if no such dealer is available, then the Fair Market Value shall be determined in good faith by the Board.

INCENTIVE STOCK OPTION: An Incentive Stock Option is a Stock Option that qualifies as an "incentive stock option" as defined under Section 422 (or any applicable successor provisions) of the Code and that includes an express provision that it is intended to be an Incentive Stock Option.

SUBSIDIARY: A Subsidiary of the Company is any corporation, partnership or other entity in which the Company directly or indirectly owns 50% or more of the total combined power to cast votes in the election of directors, trustees, managing partners or similar officials.

9. GOVERNING LAW

This Plan and any awards granted hereunder shall be governed by and construed in accordance with the internal laws of the State of Delaware and applicable federal law.

FOURTH AMENDMENT AND LIMITED WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT

THIS FOURTH AMENDMENT AND LIMITED WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT, dated as of December 31, 2001 (this "Fourth Amendment") relates to that certain Amended and Restated Credit Agreement dated as of February 10, 1999 (as amended by the First Amendment to Amended and Restated Credit Agreement, dated April 28, 2000 (the "First Amendment"), the Second Amendment to Amended and Restated Credit Agreement, dated as of December 29, 2000 (the "Second Amendment") and the Third Amendment to Amended and Restated Credit Agreement, dated as of March 19, 2001 (the "Third Amendment"), and as may be further amended, supplemented, restated or otherwise modified from time to time, the "Credit Agreement") and is entered into among Callaway Golf Company, a Delaware corporation (the "Borrower"), the other credit parties signatory to the Credit Agreement, the lenders signatory hereto (the "Requisite Lenders") and General Electric Capital Corporation, a New York corporation, as agent for the Lenders (in such capacity, the "Agent"). Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement.

W I T N E S S E T H

WHEREAS, the Borrower, the other Credit Parties, Agent and the Lenders have entered into the Credit Agreement, the First Amendment, the Second Amendment and the Third Amendment;

WHEREAS, Callaway Golf South Pacific Pty Ltd ("CGSP") is a wholly owned subsidiary of Borrower and Borrower has advanced certain sums to CGSP (the "Intercompany Debt");

WHEREAS, CGSP and Borrower have agreed to convert into equity a portion of the Intercompany Debt, whereby Borrower will receive 500,000 of the ordinary shares of CGSP in exchange for a A$500,000 reduction of the Intercompany Debt (as more fully described in Schedule A attached hereto, the "Recapitalization");

WHEREAS, Borrower has requested that Agent and the Requisite Lenders grant a limited waiver (the "Limited Waiver") to Section 6.5 of the Credit Agreement (Capital Structure and Business), solely with respect to the Recapitalization;

WHEREAS, Borrower has requested that the Credit Agreement be amended to exclude the issuance of shares of Stock in payment of advances made by Borrower to its Subsidiaries from the limitations provided in Section 6.5 of the Credit Agreement (the "Amendment");

WHEREAS, Section 11.2 of the Credit Agreement requires that the Requisite Lenders consent to the Limited Waiver and the Amendment; and

WHEREAS, Agent, Borrower and Requisite Lenders are willing to provide the Limited Waiver and Amendment on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the above premises, Borrower, Agent, and the Requisite Lenders agree as follows:

1. Definitions and Usage. Capitalized terms used, but not defined, herein have the meanings ascribed to such terms in the Credit Agreement. Any reference herein to Section, Exhibit or Schedule shall, unless otherwise specified, refer to such Section, Exhibit or Schedule hereof, in its entirety.

2. Amendment to the Credit Agreement. Upon the Effective Date (as defined in Section 5 below), Section 6.5(b) of the Credit Agreement is hereby amended by deleting the text thereof in its entirety and substituting the following in lieu thereof:

> "make any change in its capital structure as described on Disclosure Schedule (3.8), including the issuance of any shares of Stock, warrants or other securities convertible into Stock or any revision of the terms of its outstanding Stock, except (i) to the extent permitted by Section 6.13(ii) or Section 6.14, (ii) as a result of a Reincorporation Merger, (iii) that Special Purpose Corporation may issue Stock in connection with the Receivables Facility and (iv) that Borrower may make a Public Offering of its common Stock so long as (A) the proceeds thereof are applied in prepayment of the Obligations as required by Section 1.3(b)(iii), and (B) no Change of Control occurs after giving effect thereto"

3. Limited Waiver. Upon the Effective Date, and as limited herein, the Requisite Lenders hereby waive Section 6.5 of the Credit Agreement (Capital Structure and Business), solely with respect to the Recapitalization.

The Limited Waiver shall be limited to those Events of Default, if any, arising solely from the Recapitalization as described herein and do not apply to any past, present or future Events of Default caused by any other violation of Sections 5 or 6 or other provisions of the Credit Agreement or any of the Loan Documents.

4. Representations and Warranties. The Credit Parties hereby jointly and severally represent and warrant to the Agent and the Requisite Lenders that, as of the Effective Date and after giving effect to this Fourth Amendment:

a. All of the representations and warranties of the Credit Parties contained in this Fourth Amendment, the Credit Agreement and the other Loan Documents are true and correct in all material respects on and as of the Effective Date, as if then made (other than representations and warranties which expressly speak as of a different date, which shall be true and correct in all material respects as of that date); and

b. No Default or Event of Default has occurred and is continuing or will result after giving effect to this Fourth Amendment.

5. Effective Date. This Fourth Amendment shall become effective as of the date first written above (the "Effective Date") upon the satisfaction of each of the following conditions:

a. The Agent shall have received each of the following documents, in each case in form and substance satisfactory to the Agent:

i. counterparts hereof executed by each of the Credit Parties, the Agent and the Requisite Lenders;

ii. duly executed amendments to the Receivables Documents effecting all modifications necessary to permit the Recapitalization, together with a certificate of the Chief Financial Officer of the Borrower certifying that all conditions to the effectiveness of the amendments have been satisfied and that the amendments are in full force and effect as of the Effective Date;

iii. the duly executed Pledge Agreement reflecting the Recapitalization, accompanied by (y) the share certificate representing sixty-five percent (65%) of the 500,000 ordinary shares of CGSP being issued to Borrower pursuant to the Recapitalization, which 325,000 ordinary shares of CGSP are being pledged in accordance with the Credit Agreement, and (z) a stock power for such share certificate executed in blank;

iv. a certificate of the Secretary or Assistant Secretary of each of the Credit Parties dated the Effective Date certifying (A) that the bylaws of such Credit Party have not been amended or otherwise modified since the date of the most recent certification thereof by the Secretary or Assistant Secretary of such Credit Party delivered to the Agent and remain in full force and effect as of the Effective Date, (B) that the charter of such Credit Party has not been amended or otherwise modified since the date of the most recent certification thereof by the Secretary of State of such Credit Party's jurisdiction of incorporation delivered to the Agent and remain in full force and effect as of the Effective Date and (C) that the execution, delivery and performance of this Fourth Amendment have been duly authorized by all necessary or proper corporate and shareholder action; and

v. such additional documentation as the Agent may reasonably request;

b. No law, regulation, order, judgment or decree of any Governmental Authority shall, and the Agent shall not have received any notice that litigation is pending or threatened which is likely to, enjoin, prohibit or restrain the consummation of the transactions contemplated by this Fourth Amendment, except for such laws, regulations, orders or decrees, or pending or threatened litigation, that in the aggregate could not reasonably be expected to have a Material Adverse Effect;

c. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Fourth Amendment shall be satisfactory in all respects in form and substance to the Agent; and

d. No Default or Event of Default shall have occurred and be continuing on the Effective Date or will result after giving effect to this Fourth Amendment.

6. Reference to and Effect on the Loan Documents.

a. Upon the Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import, and each reference in the other Loan Documents to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended and supplemented hereby.

b. Except to the extent specifically set forth herein, the respective provisions of the Credit Agreement and the other Loan Documents shall not be amended, modified, waived, impaired or otherwise affected hereby, and such documents and the Obligations under each of them are hereby confirmed as being in full force and effect.

c. This Fourth Amendment shall be limited solely to the matters expressly set forth herein and shall not (i) constitute an amendment or waiver of any other term or condition of the Credit Agreement or any other Loan Document, (ii) prejudice any right or rights which the Agent or any Lender may now have or may have in the future under or in connection with the Credit Agreement or any other Loan Document, (iii) require the Agent or any Lender to agree to a similar transaction on a future occasion or (iv) create any right herein to another Person or other beneficiary or otherwise, except to the extent specifically provided herein.

7. Miscellaneous. This Fourth Amendment is a Loan Document. The headings herein are for convenience of reference only and shall not alter or otherwise affect the meaning hereof.

8. Section Titles. The Section titles in this Fourth Amendment are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

9. Counterparts. This Fourth Amendment may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument.

10. GOVERNING LAW. THIS FOURTH AMENDMENT, AND ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE HEREOF, SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

11. No Strict Construction. The parties hereto have participated jointly in the negotiation and drafting of this Fourth Amendment. In the event an ambiguity or question of intent or interpretation arises, this Fourth Amendment shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Fourth Amendment.

IN WITNESS WHEREOF, the Credit Parties, the Agent and the Requisite Lenders have caused this Fourth Amendment to be executed by their respective officers thereunto duly authorized as of the date first above written.

CALLAWAY GOLF COMPANY,
as Borrower

By: ______________________________
Name:
Title:

CALLAWAY GOLF SALES COMPANY,
as a Credit Party

By: ______________________________
Name:
Title:

GENERAL ELECTRIC CAPITAL CORPORATION,
as Agent and Lender

By: /s/ Robert Yasuda

Name: Robert Yasuda
Title: Authorized Signatory
Pro Rata Share: 20.83%

AMERICAN NATIONAL BANK AND TRUST
COMPANY OF CHICAGO,
as a Lender

By: ______________________________
Name:
Title:
Pro Rata Share: 17.71%

BANK OF AMERICA, NATIONAL ASSOCIATION,
as a Lender

By: ______________________________

Name:
Title:
Pro Rata Share: 14.17%

CONGRESS FINANCIAL CORPORATION
(WESTERN),
as a Lender

By: ________________________________
Name:
Title:
Pro Rata Share: 14.17%

KEY CORPORATE CAPITAL INC.,
as a Lender

By: ______________________________
Name:
Title:
Pro Rata Share: 14.17%

NATIONAL CITY COMMERCIAL FINANCE,
INC., as a Lender

By: ______________________________
Name:
Title:
Pro Rata Share: 8.33%

NATIONAL WESTMINSTER BANK PLC,
as a Lender

By: ______________________________
Name:
Title:
Pro Rata Share: 10.63%

EXHIBIT A

TO

LIMITED WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT

(see attached)

Exhibit A

FOURTH AMENDMENT TO
AMENDED AND RESTATED CREDIT AGREEMENT

FIFTH AMENDMENT AND LIMITED WAIVER
TO
AMENDED AND RESTATED CREDIT AGREEMENT

THIS FIFTH AMENDMENT AND LIMITED WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT, dated as of February 25, 2003 (this "Fifth Amendment") relates to that certain Amended and Restated Credit Agreement dated as of February 10, 1999 (as amended by the First Amendment to Amended and Restated Credit Agreement, dated April 28, 2000, the Second Amendment to Amended and Restated Credit Agreement, dated as of December 29, 2000, the Third Amendment to Amended and Restated Credit Agreement, dated as of March 19, 2001 and the Fourth Amendment to Amended and Restated Credit Agreement, dated as of December 31, 2001, the "Credit Agreement") and is entered into among Callaway Golf Company, a Delaware corporation (the "Borrower"), the other credit parties signatory to the Credit Agreement, the lenders signatory hereto (the "Requisite Lenders") and General Electric Capital Corporation, a Delaware corporation, as the agent for the Lenders (in such capacity, the "Agent"). Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement.

W I T N E S S E T H

WHEREAS, the Borrower, the other Credit Parties, the Agent and the Lenders have entered into the Credit Agreement.

WHEREAS, as of the Fiscal Quarter ending September 30, 2002 (the "Third Quarter 2002") the Borrower failed to meet the minimum Fixed Charge Coverage Ratio for such period, as required by Section 6.10 (Financial Covenants) of the Credit Agreement (the "Financial Covenant Event of Default").

WHEREAS, the following other Events of Default exist and are continuing under the Credit Agreement:

a. the Borrower's failure to deliver when due the Compliance Certificates for each of the Third Quarter 2002 and the Fiscal Quarter ending December 31, 2002 (the "Fourth Quarter 2002");

b. the Borrower's failure to report the Financial Covenant Event of Default and the Compliance Certificate Event of Default in its certification of the Third Quarter 2002 financial statements and monthly financial statements for the months of August 2002 through and including December 2003, each as required by Annex E to the Credit Agreement and the failure to make certain certifications in connection therewith;

c. the Borrower's failure to cause the periodic reports required under paragraphs (a)-(d) of Annex E to the Credit Agreement to be certified by the Chief Financial Officer of the Borrower;

d. the Borrower's failure to deliver the reports and information required under paragraphs (a)-(g), (n) and (o) of Annex E to the Credit Agreement to the Lenders;

e. the Borrower's failure to provide a cash flow statement with the monthly financial information required under paragraph (a) of Annex E to the Credit Agreement;

f. the Borrower's failure to provide both the unaudited consolidated statements of income and cash flows in proper comparative form and the figures contained in the Projections, as required under paragraph (a) of Annex E to the Credit Agreement;

g. the Borrower's failure to deliver annual operating plans as required under paragraph (c) of Annex E to the Credit Agreement;

h. the Borrower's failure to deliver copies to the Agent and Lenders of (i) all Financial Statements, reports, notices and proxy statements made publicly available by any Credit Party to its security holders, (ii) all regular and periodic reports and all registration statements and prospectuses, if any, filed by any Credit Party with any securities exchange or with the Securities and Exchange Commission or any governmental or private regulatory authority and (iii) all press releases and other statements made available by any Credit Party to the public concerning material changes or developments in the business of any such Person, in each case as required under paragraph (g) of Annex E to the Credit Agreement;

i. the Borrower's failure to deliver notices of litigation as required under paragraph (j) of Annex E to the Credit Agreement;

j. the Borrower's failure to provide with the annual Financial Statements delivered to the Agent (i) a list of any applications for the registration of any Patent, Trademark, or Copyright with the United States Patent and Trademark Office, the United States Copyright Office or any similar office or agency which any Credit Party thereof has filed in the prior Fiscal Quarter and (ii) a summary of all Equipment and sales thereof by department and type, accompanied by supporting detail and documentation, all as required under paragraph (c) of Annex F to the Credit Agreement;

k. the Borrower's failure to deliver the results of each physical verification which the Borrower or any of its Subsidiaries have made of all or any portion of their Inventory, as required under paragraph (d) of Annex F to the Credit Agreement;

l. the Borrower's failure to deliver pursuant to paragraph (f) of Exhibit E to the Credit Agreement the default notices specifying the existence and nature of the Financial Covenant Event of Default, the Events of Default described in clauses (a) through (k) above and clause (m) below, the Investment Events of Default (as defined below), the Restricted Payment Events of Default (as defined below), and the Cross-Event of Default (as defined below);

m. the Borrower's failure to timely deliver any other reports and information required under Annex E and Annex F to the Credit Agreement prior to the date hereof (together with the Events of Default described in paragraphs (a) through (l), above, the "Reporting Events of Default");

n. the Borrower's investments in investment categories other than those permitted under subsections (i)-(v) of Section 6.2(d) of the Credit Agreement;

o. the Borrower's failure to prevent its investment in GSOT from exceeding $87,000,000 at any time, as required under Section 6.2(f) of the Credit Agreement (together with the Event of Default described in paragraph (n), above, the "Investment Events of Default"); and

p. the Borrower's declaration of dividends and repurchases of Stock after the occurrence and during the continuation of the Financial Covenant Event of Default, the Reporting Events of Default, the Investment Events of Default and the Cross-Event of Default, which repurchases of stock were made without notification to Agent, each as prohibited by Sections 6.14(d) or (e) of the Credit Agreement (the "Restricted Payment Events of Default").

WHEREAS, two Borrower Accounts (account #4126918259 at Wells Fargo Bank, N.A. and account #890114096 at UBS PaineWebber, collectively the "Non-blocked Accounts") were opened, and are being held, by the Borrower in violation of Section 1.18 of the Credit Agreement (the "Cash Management Events of Default").

WHEREAS, one or more Termination Events and an Event of Servicer Termination (each as defined in the Receivables Purchase Agreement) have occurred under the Receivables Purchase Agreement and Section 8.1(m) of the Credit Agreement provides that an Event of Default shall occur should any Termination Event or Event of Servicer Termination occur and be continuing (the "Cross-Event of Default" and, together with the Financial Covenant Event of Default, the Reporting Events of Default, the Investment Events of Default, the Restricted Payment Events of Default and the Cash Management Events of Default, the "Events of Default").

WHEREAS, in August 2002 the Borrower voluntarily prepaid in full the CEF Lease Facility in an amount of $50,798,049.00 (the "Prepayment").

WHEREAS, the Borrower has requested that the Agent and the Requisite Lenders grant a limited waiver (the "Limited Waivers") to certain provisions of the Credit Agreement, as follows and as provided in Section 3 below:

a. Section 1.8 (Cash Management Systems), solely with respect to the Cash Management Events of Default.

b. Section 4.1(a) (Reports and Notices), solely with respect to the Reporting Events of Default;

c. Sections 6.2 (Investments; Loans and Advances), solely with respect to the Investment Events of Default;

d. Section 6.10 (Financial Covenants), solely with respect to the Financial Covenant Event of Default;

e. Section 6.14 (Restricted Payments), solely with respect to the Restricted Payment Events of Default; and

f. Section 8.1(m) (Events of Default), solely with respect to the Cross-Event of Default.

WHEREAS, in connection with the termination of the Receivables Facility, the Borrower has requested that Section 1.3(e) of the Credit Agreement be amended to clarify the application of payments formerly received from the Receivables Facility and Disclosure Schedule 3.19 shall be updated to reflect the bank accounts held as of the Effective Date (as defined below) by the Borrower, any other Credit Party and any of their respective Domestic Subsidiaries (collectively, the "RPA Termination Amendments");

WHEREAS, the Borrower has requested that the Credit Agreement be amended to exclude the Prepayment from the calculation of the Fixed Charge Coverage Ratio (the "Coverage Ratio Amendment").

WHEREAS, the Borrower has requested that the Credit Agreement be amended to permit the merger of Special Purpose Corporation with and into Callaway Golf Sales Company, a California corporation ("CGSC") as soon as commercially practicable after the termination of the Receivables Facility, with CGSC as the surviving corporation (such amendment, the "Merger Amendments").

WHEREAS, the Borrower has requested that the investment restriction contained in Section 6.2(f) be amended to prohibit the Borrower from increasing its equity interest participation in GSOT (together with the RPA Termination Amendments, the Merger Amendments and the Coverage Ratio Amendment, the "Amendments").

WHEREAS, Section 11.2 of the Credit Agreement requires that the Requisite Lenders consent to the Limited Waivers and the Amendments.

WHEREAS, the Agent and the Requisite Lenders are willing to provide the Limited Waivers and Amendments, in each case on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the above premises, the Borrower, the Agent, and the Requisite Lenders agree as follows:

1. Usage. Any reference herein to Section, Exhibit or Schedule, unless otherwise specified, shall refer to such Section, Exhibit or Schedule hereof, in its entirety.

2. Amendments to the Credit Agreement. Upon the Effective Date (as defined in Section 5 below), the Credit Agreement is hereby amended as follows:

a. Section 1.3(e) is hereby amended by:

i. Deleting the title of such section and substituting in lieu thereof the title "Application of Payments from the Collection Account"; and

ii. Deleting the phrase "Payments deposited in the Agent Account in accordance with Section 2.04 or Article VI (or any comparable provisions) of the Receivables Purchase Agreement shall be applied as follows" and substituting in lieu thereof the phrase "Payments deposited in the Agent Account from the Collection Account in accordance with paragraph (b)(iii) of Annex C shall be applied as follows".

b. Section 6.2(f) is hereby amended by deleting the phrase "provided, that the aggregate amount thereof does not exceed $87,000,000 at any time" and substituting in lieu thereof the phrase "provided, that the aggregate number of shares held by Borrower in connection with such investment shall not exceed 9,880,028 at any time (as such number of shares may be adjusted from time to time to take into account any additional shares received by Borrower as a result of any stock split, dividend, subdivision or combination effected by Borrower after February 26, 2003)"

c. Annex A (Definitions) is hereby amended by:

i. Deleting clause (a)(i) of the definition of "Fixed Charge Coverage Ratio" in its entirety and substituting the following in lieu thereof:

"Capital Expenditures (other than (y) Capital Expenditures financed pursuant to clause (i) or (ii) of Section 6.3 and (z) solely for the purpose of calculating the Fixed Charge Coverage Ratio for the twelve (12) month periods ending on each of the Fiscal Quarters ending September 30, 2002, December 31, 2002, March 31, 2003 and June 30, 2003, the CEF Lease Prepayment Amount),"

ii. Deleting the definition of "GSOT" in its entirety and substituting the following in lieu thereof:

"`GSOT' shall mean the Callaway Golf Company Grantor Stock Trust established pursuant to the Trust Agreement dated as of July 14, 1995 between the Borrower and Bank of the West, as successor to Sanwa Bank California."

iii. Adding the following definitions in their proper alphabetic order:

"`CEF Lease Prepayment Amount' shall mean the August 2002 payment by the Borrower to General Electric Capital Corporation, for itself and for certain participants, of an aggregate amount of $50,798,049.00 in connection with the CEF Lease Facility.'"

"`Collection Account' shall mean that certain segregated deposit account held in the name of Callaway Golf Sales Company and maintained with Wells Fargo Bank, N.A., as a Relationship Bank, and designated as the "Collection Account," account number 4159-274265, ABA No. 121000248, or such other collection account established in accordance with the requirements set forth in Annex C."

"Permitted Merger" shall mean the merger of Special Purpose Corporation with and into Callaway Golf Sales Company, a California corporation, with Callaway Golf Sales Company as the surviving corporation, which merger shall be effective as soon as commercially practicable after the termination of the Receivables Facility and the documentation for which shall be executed and delivered immediately upon the termination of the Receivables Facility.

"`Relationship Bank' shall have the meaning assigned to it in paragraph (a) of Annex C."

d. Disclosure Schedule 3.19 is hereby amended by deleting the text thereof in its entirety and substituting Schedule I attached hereto, in lieu thereof.

e. Section 5.1 is hereby amended by adding the following proviso at the end thereof:

"; provided, further, that the Permitted Merger shall not be deemed a violation of this covenant"

f. Section 6.1(a) is hereby amended by adding the following proviso at the end thereof:

"; provided, that the Permitted Merger shall not be deemed a violation of this covenant"

g. Section 6.4(a) is hereby amended by adding the following proviso at the end of the first sentence thereof:

"; provided, that the Permitted Merger shall not be deemed a violation of this covenant"

h. Section 6.5 is hereby amended by adding the following proviso at the end of the first sentence thereof:

"; provided, that the Permitted Merger shall not be deemed a violation of this covenant"

3. Limited Waivers. Upon the Effective Date, and as limited herein, the Requisite Lenders hereby waive the following provisions of the Credit Agreement solely with respect to the matters expressly described below:

a. Section 1.8, solely with respect to the Cash Management Events of Default.

b. Section 6.2, solely with respect to the Investment Events of Default;

c. Section 6.10, solely with respect to the Financial Covenant Event of Default;

d. Section 6.14, solely with respect to the Restricted Payment Events of Default; and

e. Section 8.1(m), solely with respect to the Cross-Event of Default.

The Limited Waivers shall be limited to the Cash Management Events of Default, the Reporting Events of Default, the Investment Events of Default, the Financial Covenant Event of Default, the Restricted Payment Events of Default and the Cross-Event of Default and do not apply to any past, present or future Defaults or Events of Default caused by any other violation of Sections 5 or 6, or any other provisions, of the Credit Agreement or any of the other Loan Documents.

4. Representations and Warranties. The Credit Parties hereby jointly and severally represent and warrant to the Agent and the Requisite Lenders that, as of the Effective Date and after giving effect to this Fifth Amendment:

a. All of the representations and warranties of the Credit Parties contained in this Fifth Amendment, the Credit Agreement and the other Loan Documents are true and correct in all material respects on and as of the Effective Date, as if then made (other than representations and warranties which expressly speak as of a different date, which shall be true and correct in all material respects as of that date); and

b. No Default or Event of Default has occurred and is continuing or will result after giving effect to this Fifth Amendment.

5. Effective Date. This Fifth Amendment shall become effective as of the date first written above (the "Effective Date") upon the satisfaction of each of the following conditions:

a. the Agent shall have received each of the following documents, in each case in form and substance satisfactory to the Agent:

i. the Compliance Certificates for each of the Third Quarter 2002 and the Fourth Quarter 2002;

ii. counterparts hereof executed by each of the Credit Parties, the Agent and the Requisite Lenders;

iii. duly executed documentation reasonably satisfactory to the Agent evidencing the termination of the Receivables Facility;

iv. a duly executed tri-party blocked account agreement, or an amendment to an existing blocked account agreement, for each bank account that will be held by Callaway Golf Sales Company on or after the Effective Date, each of which blocked account agreement or amendment, as the case may be, shall be between the Agent, for the benefit of itself and the Lenders, the Borrower and its Subsidiaries, as applicable, and the applicable Relationship Bank and in form and substance satisfactory to the Agent;

v. a certificate of the Secretary or Assistant Secretary of each of the Credit Parties dated the Effective Date certifying (A) that the bylaws of such Credit Party have not been amended or otherwise modified since the date of the most recent certification thereof by the Secretary or Assistant Secretary of such Credit Party delivered to the Agent and remain in full force and effect as of the Effective Date, (B) that the charter of such Credit Party has not been amended or otherwise modified since the date of the most recent certification thereof by the Secretary of State of such Credit Party's jurisdiction of incorporation delivered to the Agent and remain in full force and effect as of the Effective Date and (C) that the execution, delivery and performance of this Fifth Amendment have been duly authorized by all necessary or proper corporate and shareholder action; and

vi. such additional documentation as the Agent may reasonably request;

b. all bank accounts held by Special Purpose Corporation shall have been transferred to Callaway Golf Sales Company or closed;

c. the Agent shall have received, on behalf of the Requisite Lenders that deliver their executed counterparts of this Fifth Amendment by noon Pacific Standard Time on February 26, 2003 (the "Consenting Lenders"), the Borrower's payment of a waiver fee in an amount equal to (i) 0.125% of the aggregate amount of the Commitments of the Consenting Lenders minus (ii) One Hundred Percent (100%) of the aggregate amount payable by the Borrower to the Agent on account of fees and expenses incurred by the Agent in connection with the preparation and execution of this Fifth Amendment and that certain letter delivered to the Borrower by the Agent on February 7, 2003;

d. No law, regulation, order, judgment or decree of any Governmental Authority shall, and the Agent shall not have received any notice that litigation is pending or threatened which is likely to, enjoin, prohibit or restrain the consummation of the transactions contemplated by this Fifth Amendment, except for such laws, regulations, orders or decrees, or pending or threatened litigation, that in the aggregate could not reasonably be expected to have a Material Adverse Effect;

e. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Fifth Amendment shall be satisfactory in all respects in form and substance to the Agent; and

f. No Default or Event of Default shall have occurred and be continuing on the Effective Date or will result after giving effect to this Fifth Amendment.

6. Covenant Regarding Non-blocked Accounts. Within thirty (30) days of the date hereof, Borrower shall have caused each of the Non-blocked Accounts to either be (i) subject to an executed tri-party blocked account agreement between the Agent, for the benefit of itself and the Lenders, the Borrower and the applicable Relationship Bank and in form and substance satisfactory to the Agent or (ii) closed, as evidenced by documentation reasonably satisfactory to the Agent.

7. Reference to and Effect on the Loan Documents.

a. Upon the Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import, and each reference in the other Loan Documents to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended and supplemented hereby.

b. Except to the extent specifically set forth herein, the respective provisions of the Credit Agreement and the other Loan Documents shall not be amended, modified, waived, impaired or otherwise affected hereby, and such documents and the Obligations under each of them are hereby confirmed as being in full force and effect.

c. This Fifth Amendment shall be limited solely to the matters expressly set forth herein and shall not (i) constitute an amendment or waiver of any other term or condition of the Credit Agreement or any other Loan Document, (ii) prejudice any right or rights which the Agent or any Lender may now have or may have in the future under or in connection with the Credit Agreement or any other Loan Document, (iii) require the Agent or any Lender to agree to a similar transaction on a future occasion or (iv) create any right herein to another Person or other beneficiary or otherwise, except to the extent specifically provided herein.

8. Miscellaneous. This Fifth Amendment is a Loan Document. The Section titles in this Fifth Amendment are for convenience of reference only, shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

9. Fees and Expenses. The Borrower acknowledges that all costs, fees and expenses incurred by the Agent and its counsel with respect to this Fifth Amendment and the documents and transactions contemplated hereby shall be the responsibility of, and shall be paid by, the Borrower.

10. Counterparts. This Fifth Amendment may be executed in any number of original or facsimile counterparts, each of which will be deemed an original, and by the different parties

hereto in separate counterparts, all of which shall together constitute one and the same instrument.

11. GOVERNING LAW. THIS FIFTH AMENDMENT, AND ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE HEREOF, SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

12. No Strict Construction. The parties hereto have participated jointly in the negotiation and drafting of this Fifth Amendment. In the event an ambiguity or question of intent or interpretation arises, this Fifth Amendment shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Fifth Amendment.

IN WITNESS WHEREOF, the Credit Parties, the Agent and the Requisite Lenders have caused this Fifth Amendment to be executed by their respective officers thereunto duly authorized as of the date first above written.

CALLAWAY GOLF COMPANY,
as the Borrower

By:

Name:
Title:

CALLAWAY GOLF SALES COMPANY,
as a Credit Party

By:

Name:
Title:

GENERAL ELECTRIC CAPITAL CORPORATION,
as the Agent and a Lender

By: /s/ Iain Douglas

Name: Iain Douglas
Title: Senior Vice President
Pro Rata Share: 20.83%

BANK ONE, NA (Main Office Chicago), as successor
to American National Bank and Trust Company of
Chicago, as a Lender

By:

Name:
Title:
Pro Rata Share: 17.71%

BANK OF AMERICA, NATIONAL ASSOCIATION,
as a Lender

By:

Name:
Title:
Pro Rata Share: 14.17%

CONGRESS FINANCIAL CORPORATION (WESTERN),
as a Lender

By:

Name:
Title:
Pro Rata Share: 14.17%

KEY CORPORATE CAPITAL INC.,
as a Lender

By:

Name:
Title:
Pro Rata Share: 14.17%

NATIONAL CITY COMMERCIAL FINANCE, INC.,
as a Lender

By:

Name:
Title:
Pro Rata Share: 8.33%

ROYAL BANK OF SCOTLAND,
as a Lender

By:

Name:
Title:
Pro Rata Share: 10.62%

SCHEDULE I

TO

FIFTH AMENDMENT AND LIMITED WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT

Disclosure Schedule 3.19

(See attached.)

Schedule I

Exhibit 10.43

THIS RECEIVABLES PURCHASE TERMINATION AND RECONVEYANCE AGREEMENT (this "Agreement") is made and entered into as of February 26, 2003, among GOLF FUNDING CORPORATION, a Delaware corporation (the "Seller"), CALLAWAY GOLF SALES COMPANY as the servicer (the "Servicer"), REDWOOD RECEIVABLES CORPORATION (the "Purchaser") and GENERAL ELECTRIC CAPITAL CORPORATION as operating agent for the Purchaser (the "Operating Agent") and as collateral agent for the Purchaser (the "Collateral Agent"; together with the Operating Agent, the "Agents").

STATEMENT OF FACTS

Pursuant to that certain Receivables Purchase and Servicing Agreement, dated as of February 10, 1999 (as heretofore amended, restated, supplemented or otherwise modified, the "Purchase Agreement") among the Seller, the Servicer, the Purchaser and the Agents, the Purchaser has purchased or acquired from time to time from the Seller all receivables owned by the Seller and the Servicer has serviced and administered such receivables.

The parties desire to terminate the Purchase Agreement and to provide for the reassignment by the Purchaser and the Agents of the Transferred Receivables to the Seller in accordance with and subject to the terms and conditions of this Agreement.

STATEMENT OF TERMS

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

1. Definitions. Unless otherwise expressly defined herein, all capitalized terms used herein shall have the respective meanings given such terms in the Purchase Agreement.

2. Reconveyance by Purchaser. (a) Subject to the terms and conditions of this Agreement, the Purchaser hereby sells, assigns, transfers and conveys to the Seller, and the Seller hereby accepts, purchases and receives, all of the Purchaser's right, title and interest in and to the Transferred Receivables as of the date hereof (the "RECONVEYED PROPERTY"). In consideration for such transfers and assignments, the Seller shall pay the amount set forth in the table below (the "RECONVEYANCE AMOUNT") in immediately available funds on or before 2:00 p.m. (Eastern Time) on [February 26, 2003] in the following account: Bankers Trust Company, 1 Bankers Trust Plaza, New York, New York 10006, Account Name: Redwood Receivables Corporation - Collection Account (GFC), Account Number: 27063, ABA # 021-001-033:

Outstanding Capital Investment of the Purchaser	$0
Accrued but unpaid Daily Yield and accrued but unpaid fees of the Agents and the Purchaser	$0
Legal Fees	$7000
Reconveyance Amount	$1

(b) Subject to the terms and conditions of this Agreement, each Agent hereby consents to the sale, assignment, transfer and conveyance hereunder of the Reconveyed Property by the Purchaser to the Seller and hereby releases and terminates all security interests or other rights or interests that such Agent may have in the Reconveyed Property. To evidence the effectiveness of such reassignment and release of all security interests in the Reconveyed Property, each Agent hereby authorizes the Seller (or any other Person designated by the Seller) to record and file termination statements with respect to the financing statements listed on Exhibit A attached hereto, and, each Agent agrees to the extent necessary to execute termination statements with respect to such financing statements. In addition to the foregoing, each of the Agents and the Purchaser hereby agrees to consent to the (i) amendment of that certain Collection Account Agreement, dated as of February 10, 1999 ("Account Agreement #1"), among the Servicer, the Seller, the Collateral Agent, General Electric Capital Corporation as "Lender Agent" and Wells Fargo Bank, N.A. ("Wells Fargo"), and (ii) termination of that certain Collection Account Agreement, dated as of February 10, 1999 ("Account Agreement #2"; together with Account Agreement #1, "Account Agreements"), among the Servicer, the Seller, the Collateral Agent and Wells Fargo, and to execute the termination letter attached hereto as Exhibit B with respect to Account Agreement #2.

3. Termination of Purchase Agreement. Upon the effectiveness of this Agreement, the Purchase Agreement shall terminate and all obligations of the parties thereunder shall terminate, except with respect to provisions (and obligations arising thereunder) of the Purchase Agreement that survive termination of the Purchase Agreement, and all security interests of the parties thereunder shall terminate.

4. Releases. Upon the effectiveness of this Agreement, each of the Seller and the Servicer (each such party being referred to as a "Releasing Party") shall be deemed to have (a) released and forever discharged each of the Purchaser, the Agents and their respective subsidiaries, agents, employees, officers, directors, attorneys, affiliates, successors and assigns (collectively, the "Released Parties") of and from any and all liabilities, claims, obligations, indebtedness, liens, causes of action and rights of any kind, character or nature whatsoever, whether known or unknown, whether fixed or contingent, and whether liquidated or unliquidated, that such Releasing Party may have or claim to have against any such Released Party and which arises out of or is connected in any way with any action of commission or omission of any Released Party existing or occurring on or prior to the date of this Agreement, including without limitation any claims, liabilities or obligations relating to or arising out of or in connection with the Purchase Agreement or any of the other Related Documents or any of the transactions contemplated by the Purchase Agreement or any of the other Related Documents, from the beginning of time until the execution and delivery of this Agreement (collectively, the "Released Claims") and (b) agrees forever to refrain from commencing, instituting or prosecuting any law suit, action or other proceeding against any of the Released Parties with respect to any of such Released Claims; provided, however, that the Released Claims do not include, and the releases and covenants-not-to-sue set forth in this Section 4 shall not apply to, the Released Parties' respective representations, warranties, covenants and other obligations under this Agreement or any obligations under the Purchase Agreement which survive termination thereof as provided in Section 3.

5. Effectiveness of this Agreement. This Agreement shall be effective as of this date upon the satisfaction of all of the following conditions precedent:

(a) One or more counterparts of this Agreement shall have been executed and delivered by the Seller, the Servicer, the Purchaser and the Agents; and

(b) The Purchaser shall have received payment of the Reconveyance Amount in accordance with Section 2(a) above.

(c) The Agents and the Purchaser shall have received evidence satisfactory to the Agents that all conditions precedent to the effectiveness of that certain Fifth Amendment and Limited Waiver to Amended and Restated Credit Agreement, dated as of February 25, 2003, a copy of which is attached as Exhibit C hereto, have been satisfied or waived in accordance with the terms thereof.

6. Further Assurances. Each of the Purchaser and the Agents hereby agrees to execute and deliver such Uniform Commercial Code termination statements, and such other documents as the Seller may reasonably request from time to time in order to more fully effectuate the transactions contemplated by this Agreement (including, without limitation, those necessary to amend or terminate, as the case may be, the Account Agreements); provided, however, that any and all such termination statements, and other documents shall be prepared and/or recorded at the Seller's expense.

7. Representations and Warranties.

(a) Each of the parties hereto represents and warrants that it has the full corporate or other power and authority to execute and deliver this Agreement and to perform its obligations hereunder and that this Agreement has been duly and validly executed and delivered by it (and assuming the due and valid execution and delivery hereof by all other parties hereto) constitutes a legal, valid and binding obligation of such party enforceable against it in accordance with its terms, except as the enforceability hereof may be limited by bankruptcy, insolvency, reorganization or other similar laws of general application relating to or affecting the enforcement of creditors' rights or by general principles of equity.

(b) Each of the Purchaser and the Agents hereby represents and warrants that, upon the effectiveness of this Agreement and the Purchaser's receipt of the Reconveyance Amount in accordance with Section 2(a) above, the Seller and the Servicer will not owe any amounts to the Purchaser or the Agents for any reason under the Purchase Agreement or any of the other Related Documents; provided, however, that all or a portion of such amounts shall be reinstated in the event and to the extent that any payment thereof is rescinded or must otherwise be disgorged or returned by the Purchaser or either Agent upon the insolvency, dissolution, liquidation, bankruptcy or reorganization of the Seller or the Servicer or upon or as a result of the appointment of a trustee, receiver or conservator or similar officer for the Seller or the Servicer or any substantial part of its property.

8. Miscellaneous. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns. This Agreement may be executed in any number of several counterparts, and each such counterpart shall constitute an original and all such counterparts together shall constitute one and the same instrument. The delivery of an executed counterpart hereof by facsimile shall constitute delivery of an executed counterpart hereof.

* * *

IN WITNESS, each of the parties hereto, by their respective duly authorized signatories, has executed and delivered this Agreement as of the date first above written.

GENERAL ELECTRIC CAPITAL CORPORATION, as Operating Agent

By: /s/ Brian Schwinn

Brian Schwinn
Duly Authorized Signatory

GENERAL ELECTRIC CAPITAL CORPORATION, as Collateral Agent

By: /s/ Brian Schwinn

Brian Schwinn
Duly Authorized Signatory

REDWOOD RECEIVABLES CORPORATION, as Purchaser

By: /s/ Brian Schwinn

Brian Schwinn
Assistant Secretary

GOLF FUNDING CORPORATION,
as the Seller

By: /s/ Ronald A. Drapeau

Ronald A. Drapeau
President and Chief Executive Officer

CALLAWAY GOLF SALES COMPANY,
as the Servicer

By: /s/ Ronald A. Drapeau

Ronald A. Drapeau
Chief Executive Officer

EXHIBIT A

Financing Statements to be Terminated

DEBTOR	STATE	FILING NO.
Callaway Golf Sales Company	California	199904860295
Callaway Golf Sales Company	California	199904860288
Callaway Golf Company	California	199904860283
Golf Funding Corporation	California	199904860272

EXHIBIT B

Account Agreement Termination Letter

[Insert Date]

Wells Fargo Bank, N.A.
401 "B" Street, Suite 2201
San Diego, California 92101

Re: Account Number 4488-838889

Ladies and Gentlemen:

Reference is hereby made to that certain Collection Account Agreement, dated as of February 10, 1999 ("Account Agreement"), among Callaway Golf Sales Company (the "Servicer"), Golf Funding Corporation (the "Seller"), General Electric Capital Corporation as the collateral agent (the "Collateral Agent") and Wells Fargo Bank, N.A. ("Wells Fargo").

Pursuant to the terms of the Account Agreement, we hereby give you written notice that the Receivables Purchase and Servicing Agreement, dated as of February 10, 1999 (as heretofore amended, restated, supplemented or otherwise modified, the "Purchase Agreement") among the Seller, the Servicer, Redwood Receivables Corporation (the "Purchaser"), the Collateral Agent and General Electric Capital Corporation as operating agent has been terminated and is no longer in effect, and as a result we hereby terminate the Account Agreement.

Very Truly Yours,

GENERAL ELECTRIC CAPITAL CORPORATION

By:__________________________________
Name: Brian Schwinn
Title: Duly Authorized Signatory

Acknowledged, agreed and consented to
this ___ day of _______________

WELLS FARGO BANK, N.A.

By:_________________________________
Name:
Title:

EXHIBIT C

Fifth Amendment and Limited Waiver

[see attached]

Exhibit 21.1

SUBSIDIARY LIST	INCORPORATED
Callaway Golf Sales Company	California
Callaway Golf Shell Company	California
CGV, Inc.	California
All-American Golf LLC	California
Callaway Golf South Pacific Pty Ltd.	Australia
Callaway Golf Europe Ltd.	United Kingdom
Callaway Golf K.K.	Japan
Callaway Golf Korea Ltd.	Korea
Callaway Golf (Germany) GmbH	Germany
Callaway Golf Canada Ltd.	Canada

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the following registration statements of Callaway Golf Company, (1) No. 333-43756, No. 333-52020, No. 33-85692, No. 33-50564, No. 33-56756, No. 33-67160, No. 33-73680, No. 33-98750, No. 333-242, No. 333-5719, No. 333-5721, No. 333-24207, No. 333-27089, No. 333-39095, No. 333-61889, No. 333-84716, No. 333-84724, No. 333-95601, and No. 333-95603 on Form S-8, and (2) No. 33-77024 on Form S-3, of our reports dated February 4, 2003 (except for Note 6, as to which the date is February 26, 2003), relating to the consolidated financial statements and financial statement schedule of Callaway Golf Company and subsidiaries as of and for the year ended December 31, 2002 (which report expresses an unqualified opinion and includes explanatory paragraphs relating to (i) the adoption of a new accounting principle and (ii) the application of procedures with respect to certain other disclosures related to the 2001 consolidated financial statements that were audited by other auditors who have ceased operations and for which we have expressed no opinion or other form of assurance other than with respect to such disclosures) appearing in this Annual Report on Form 10-K of Callaway Golf Company for the year ended December 31, 2002.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California
March 14, 2003

Exhibit 23.2

Note Regarding Arthur Andersen LLP

The Company was unable to obtain the consent of Arthur Andersen LLP to the incorporation by reference of its audit report that it issued in connection with its audit of the Company's consolidated financial statements for the year ended December 31, 2001 because Arthur Andersen LLP has ceased operations.

EXHIBIT 23.3

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-3 (No. 33-77024) and S-8 (No. 333-84716, No. 333-84724, No. 333-43756, No. 333-52020, No. 33-85692, No. 33-50564, No. 33-56756, No. 33-67160, No. 33-73680, No. 33-98750, No. 333-242, No. 333-5719, No. 333-5721, No. 333-24207, No. 333-27089, No. 333-39095, No. 333-61889, No. 333-95601, and No. 333-95603) of Callaway Golf Company of our report dated March 19,2001 relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Diego, California
March 14, 2003

EXHIBIT 24.1

FORM OF POWER OF ATTORNEY

Each of William C. Baker, Ronald S. Beard, Vernon E. Jordan, Jr., Yotaro Kobayashi and Richard L. Rosenfield executed the following power of attorney, except that his name was inserted where "[name of director]" appears.

LIMITED POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that I, [NAME OF DIRECTOR], a member of the Board of Directors of Callaway Golf Company, a Delaware corporation (the "Company"), with its principal executive offices in Carlsbad, California, do hereby constitute, designate and appoint each of Steven C. McCracken and Bradley J. Holiday, each of whom are executive officers of the Company, as my true and lawful attorneys-in-fact, each with power of substitution, with full power to act without the other and on behalf of and as attorney for me, for the purpose of executing and filing with the Securities and Exchange Commission the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and any and all amendments thereto, and to do all such other acts and execute all such other instruments which said attorney may deem necessary or desirable in connection therewith.

I have executed this Limited Power of Attorney as of March 7, 2003.

____
[NAME OF DIRECTOR]

EXHIBIT 99.1

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Callaway Golf Company, a Delaware corporation (the "Company"), does hereby certify with respect to the Annual Report of the Company on Form 10-K for the year ended December 31, 2002, as filed with the Securities and Exchange Commission (the "10-K Report"), that:

(1) the 10-K Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the 10-K Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The undersigned have executed this Certification effective as of March 14, 2003.

/s/ RONALD A. DRAPEAU

Ronald A. Drapeau
Chairman, President and
Chief Executive Officer

/s/ BRADLEY J. HOLIDAY

Bradley J. Holiday
Executive Vice President and
Chief Financial Officer