UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2002

Commission file number 1-10962

Callaway Golf Company

(Exact name of registrant as specified in its charter)

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

2180 Rutherford Road, Carlsbad, CA 92008

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

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

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of July 31, 2002 was 75,983,549.

Important Notice: 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 Part I, Item 2, "Certain Factors Affecting Callaway Golf Company" of this report, as well as the Company's other periodic reports on Forms 10-K, 10-Q and 8-K subsequently filed with the Securities and Exchange Commission from time to time. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. 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 — Biggest Big Bertha — Big Bertha C4 — C4 design — C design — CB1 — CTU 30 — Callaway — Callaway Golf — Callaway Hickory Stick — Dawn Patrol — Daytripper — Demonstrably Superior and Pleasingly Different — Deuce — Divine Nine — Dual Force — Enjoy the Game — ERC — ERC II — Ely Would — Ginty — Great Big Bertha — 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 — War Bird — White Hot — World's Friendliest — X-12 — X-14 — X-SPANN*

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Item 1. *Financial Statements*

CALLAWAY GOLF COMPANY

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

	June 30, 2002	December 31, 2001
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 92,070	$ 84,263
Marketable securities	—	6,422
Accounts receivable, net	174,837	48,653
Inventories, net	145,614	167,760
Deferred taxes	30,565	27,266
Other current assets	8,253	20,327
Total current assets	451,339	354,691
Property, plant and equipment, net	131,395	133,250
Intangible assets, net	121,283	121,313
Deferred taxes	20,941	20,282
Other assets	18,185	18,066
	$ 743,143	$ 647,602
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 67,068	$ 38,261
Accrued employee compensation and benefits	30,296	25,301
Accrued warranty expense	33,791	34,864
Note payable, current portion	2,760	2,374
Income taxes payable	23,683	1,074
Total current liabilities	157,598	101,874
Long-term liabilities:		
Deferred compensation	6,821	8,297
Energy derivative valuation account	19,922	19,922
Note payable, net of current portion	1,608	3,160
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at June 30, 2002 and December 31, 2001	—	—
Common Stock, $.01 par value, 240,000,000 shares authorized, 83,429,627 and 82,694,173 issued at June 30, 2002 and December 31, 2001, respectively	834	827
Paid-in capital	396,164	419,541
Unearned compensation	(108)	(211)
Retained earnings	447,047	388,609
Accumulated other comprehensive loss	(4,375)	(4,399)
Less: Grantor Stock Trust held at market value, 10,434,444 shares and 10,764,690 shares at June 30, 2002 and December 31, 2001, respectively	(165,282)	(206,144)
Less: Common Stock held in treasury, at cost, 6,829,898 shares and 4,939,000 shares at June 30, 2002 and December 31, 2001, respectively	(117,086)	(83,874)
Total shareholders' equity	557,194	514,349
	$ 743,143	$ 647,602

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

CALLAWAY GOLF COMPANY

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2002		2001		2002		2001	
Net sales	$252,182	100%	$253,655	100%	$508,562	100%	$515,021	100%
Cost of goods sold	114,684	45%	121,719	48%	242,641	48%	246,177	48%
Gross profit	137,498	55%	131,936	52%	265,921	52%	268,844	52%
Operating expenses:								
Selling	54,897	22%	54,131	21%	112,166	22%	107,377	21%
General and administrative	14,988	6%	20,586	8%	28,408	6%	40,436	8%
Research and development	8,444	3%	8,444	3%	16,327	3%	17,378	3%
Total operating expenses	78,329	31%	83,161	33%	156,901	31%	165,191	32%
Income from operations	59,169	23%	48,775	19%	109,020	21%	103,653	20%
Other income (expense), net	1,614		(3,557)		1,531		(2,627)	
Income before provision for income taxes	60,783	24%	45,218	18%	110,551	22%	101,026	20%
Provision for income taxes	23,641		18,243		42,715		39,976	
Net income	$ 37,142	15%	$ 26,975	11%	$ 67,836	13%	$ 61,050	12%
Earnings per common share:								
Basic	$ 0.56		$ 0.38		$ 1.01		$ 0.86	
Diluted	$ 0.55		$ 0.36		$ 0.99		$ 0.83	
Weighted-average shares outstanding:								
Basic	66,922		71,490		67,132		70,754	
Diluted	67,910		74,777		68,264		73,619	
Dividends paid per share	$ 0.07		$ 0.07		$ 0.14		$ 0.14	

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

CALLAWAY GOLF COMPANY

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

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
Cash flows from operating activities:		
Net income	$ 67,836	$ 61,050
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	17,031	18,303
Loss on disposal of assets	199	1,686
Non-cash compensation	221	348
Tax benefit from exercise of stock options	4,451	13,845
Net non-cash foreign currency hedging gains	(3,784)	(2,965)
Net gains from sale of marketable securities	(35)	(632)
Deferred taxes	(1,356)	7,430
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(120,864)	(85,401)
Inventories, net	26,970	(7,427)
Other assets	12,995	(4,579)
Accounts payable and accrued expenses	15,330	16,767
Accrued employee compensation and benefits	4,754	7,289
Accrued warranty expense	(1,073)	(1,151)
Income taxes payable	22,289	(2,789)
Other liabilities	1,659	11,636
Net cash provided by operating activities	46,623	33,410
Cash flows from investing activities:		
Capital expenditures	(14,632)	(14,689)
Net proceeds from marketable securities	6,457	632
Cash paid for investments	(2,000)	—
Proceeds from sales of property and equipment	862	41
Business acquisitions, net of cash acquired	(8)	(1,529)
Net cash used in investing activities	(9,321)	(15,545)
Cash flows from financing activities:		
Issuance of common stock	12,923	42,503
Dividends paid, net	(9,398)	(9,951)
Acquisition of treasury stock	(33,212)	(19,530)
Payments on note payable	(1,166)	—
Net cash (used in) provided by financing activities	(30,853)	13,022
Effect of exchange rate changes on cash	1,358	(1,652)
Net increase in cash and cash equivalents	7,807	29,235
Cash and cash equivalents at beginning of period	84,263	102,596
Cash and cash equivalents at end of period	$ 92,070	$131,831

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

CALLAWAY GOLF COMPANY

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

	Common Stock		Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Loss	GST	Treasury Stock		Total	Comprehensive Income
	Shares	Amount						Shares	Amount		
Balance, December 31, 2001	82,694	$827	$419,541	$(211)	$388,609	$(4,399)	$(206,144)	(4,939)	$ (83,874)	$514,349	
Exercise of stock options	733	7	8,749	—	—	—	996	—	—	9,752	
Tax benefit from exercise of stock options	—	—	4,451	—	—	—	—	—	—	4,451	
Acquisition of Treasury Stock	—	—	—	—	—	—	—	(1,891)	(33,212)	(33,212)	
Compensatory stock and stock options	—	—	118	103	—	—	—	—	—	221	
Employee stock purchase plan	3	—	(2,131)	—	—	—	5,302	—	—	3,171	
Cash dividends paid	—	—	—	—	(9,398)	—	—	—	—	(9,398)	
Adjustment of GST shares to market value	—	—	(34,564)	—	—	—	34,564	—	—	—	
Foreign currency translation	—	—	—	—	—	3,903	—	—	—	3,903	$ 3,903
Unrealized gain on cash flow hedges, net of tax	—	—	—	—	—	(3,879)	—	—	—	(3,879)	(3,879)
Net income	—	—	—	—	67,836	—	—	—	—	67,836	67,836
Balance, June 30, 2002	83,430	$834	$396,164	$(108)	$447,047	$(4,375)	$(165,282)	(6,830)	$(117,086)	$557,194	$67,860

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

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying financial statements for the three and six months ended June 30, 2002 and 2001 have been prepared by Callaway Golf Company (the "Company") and have not been audited. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for the fair presentation of the financial position, results of operations and cash flows for the periods and dates presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2001. Interim operating results are not necessarily indicative of operating results for the full year.

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

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

2. Recent Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("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 FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt,* and an amendment of that Statement, FASB Statement No. 64, *Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements.* SFAS No. 145 also rescinds FASB Statement No. 44, *Accounting for Intangible Assets of Motor Carriers*. SFAS No. 145 amends FASB Statement 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 this 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.

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.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. 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. The Company was required to adopt these statements beginning January 1, 2002. In accordance with SFAS No. 142, the Company ceased amortizing goodwill and other intangible assets with indefinite lives that were being amortized over periods ranging from five to forty years. Other intangible assets with indefinite lives include trademark, trade name and trade dress. At June 30, 2002, the carrying value of unamortized goodwill and other intangible assets with indefinite lives was $17,715,000 and $88,590,000, respectively.

The following summarizes what net income would have been had SFAS No. 142 been adopted over the entire reporting period, adjusted for taxes (in thousands, except for per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(Unaudited)			
Reported net income	$37,142	$26,975	$67,836	$61,050
Trade name amortization	—	261	—	522
Trade mark amortization	—	112	—	224
Goodwill amortization	—	554	—	1,044
Pro forma net income	$37,142	$27,902	$67,836	$62,840
Basic earnings per share:				
Reported net income	$ 0.56	$ 0.38	$ 1.01	$ 0.86
Trade name amortization	—	—	—	0.01
Trade mark amortization	—	—	—	—
Goodwill amortization	—	0.01	—	0.02
Pro forma net income	$ 0.56	$ 0.39	$ 1.01	$ 0.89
Diluted earnings per share:				
Reported net income	$ 0.55	$ 0.36	$ 0.99	$ 0.83
Trade name amortization	—	—	—	0.01
Trade mark amortization	—	—	—	—
Goodwill amortization	—	0.01	—	0.01
Pro forma net income	$ 0.55	$ 0.37	$ 0.99	$ 0.85

3. Marketable Securities

The Company classifies its marketable securities as available-for-sale. These securities consist of equity securities and are recorded at fair value based on quoted market prices, with unrealized gains and losses reported in shareholders' equity as a component of accumulated other comprehensive income. Proceeds from the sale of securities for the six months ended June 30, 2002 and 2001, were $6,997,000 and $97,136,000, respectively. Gains and losses on securities sold are determined based on the specific identification method and are included in other income (expense), net. For the three months ended June 30, 2002 and 2001, the

Company recorded net gains of $37,000 and $414,000, respectively. For the six months ended June 30, 2002 and 2001, the Company recorded net gains of $35,000 and $632,000, respectively.

4. Inventories

Inventories are summarized below (in thousands):

	June 30, 2002	December 31, 2001
	(Unaudited)	
Raw materials	$ 61,222	$ 67,336
Work-in-process	1,177	2,179
Finished goods	90,956	105,381
	153,355	174,896
Less reserve for obsolescence	(7,741)	(7,136)
	$145,614	$167,760

5. Debt

The Company has a revolving credit facility of up to $120.0 million (the "Amended Credit Agreement"). The Amended Credit Agreement is secured by substantially all of the assets of the Company and expires in February 2004. The Amended Credit Agreement bears interest at the Company's election at the London Interbank Offering Rate ("LIBOR") plus a margin, or the higher of the base rate on corporate loans at large U.S. money center commercial banks (prime rate) or the Federal Funds Rate plus 50 basis points. The Amended Credit Agreement includes a dividend payment restriction and requires the Company to maintain certain minimum financial ratios, including a fixed charge coverage ratio, as well as other restrictive covenants, including restrictions on the amount of the Company's stock it is allowed to repurchase. The Company was in compliance with such covenants at June 30, 2002. As of June 30, 2002, $120.0 million of the credit facility remained available for borrowings, subject to meeting certain availability requirements under a borrowing base formula and other limitations.

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 annual amounts payable in 2002 and 2003 are $2,700,000 and $3,300,000, respectively. The present value of the note payable at issuance totaled $6,703,000 using an imputed interest rate of approximately 7%. The Company recorded interest expense of $87,000 and $184,000 for the three and six months ended June 30, 2002, respectively. For the three and six months ended June 30, 2001, the Company recorded interest expense of $117,000.

6. Accounts Receivable Securitization

The Company's wholly-owned subsidiary, Callaway Golf Sales Company, sells trade receivables on an ongoing basis to its wholly-owned subsidiary, Golf Funding Corporation ("Golf Funding"). Pursuant to an agreement with a securitization company (the "Accounts Receivable Facility"), Golf Funding, in turn, can sell such receivables to the securitization company on an ongoing basis, which could yield proceeds of up to $80.0 million, subject to meeting certain availability requirements under a borrowing base formula and other limitations. Golf Funding's sole business is the purchase of trade receivables from Callaway Golf Sales Company. Golf Funding is a separate corporate entity with its own separate creditors, which in the event of its liquidation would be entitled to be satisfied out of Golf Funding's assets prior to any value in Golf Funding becoming available to the Company. The Accounts Receivable Facility expires in February 2004. Under the Accounts Receivable Facility, the receivables are sold at face value with payment of a portion of the purchase price being deferred. As of June 30, 2002, no amount was outstanding under the Accounts Receivable Facility.

7. Earnings Per Share

A reconciliation of the weighted average shares used in the basic and diluted earnings per common share computations for the three and six months ended June 30, 2002 and 2001 is presented below (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(Unaudited)			
Weighted-average shares outstanding:				
Weighted-average shares outstanding — Basic	66,922	71,490	67,132	70,754
Dilutive securities	988	3,287	1,132	2,865
Weighted-average shares outstanding — Diluted	67,910	74,777	68,264	73,619

For the three months ended June 30, 2002 and 2001, options outstanding totaling 8,542,000 and 6,111,000, respectively, were excluded from the calculations, as their effect would have been antidilutive. For the six months ended June 30, 2002 and 2001, options outstanding totaling 8,434,000 and 6,002,000, respectively, were excluded from the calculations, as their effect would have been antidilutive.

8. Commitments and Contingencies

Equipment Purchase

In December 1998, the Company entered into a master lease agreement for the acquisition and lease of machinery and equipment utilized in the Company's golf ball operations. 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 is the end of the initial lease term. As of June 30, 2002, the estimated purchase price was approximately $49,856,000 (the actual purchase price is dependent in part upon interest rates on the date of purchase). During the first quarter of 2002, the Company began accruing the estimated difference between the total estimated cost to purchase the equipment and the estimated fair value of the equipment. This deficiency resulted in a charge of $1,306,000 recorded in cost of goods sold during the first quarter of 2002. During the second quarter of 2002, the Company received the results of an independent appraisal of the equipment and based upon the appraisal and the estimated purchase price, no further adjustment to the deficiency accrual was required as of June 30, 2002. (see Note 11 Subsequent Event)

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 ("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 was approximately $43,484,000.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

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 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

On April 6, 2001, a complaint was filed against Callaway Golf Company and Callaway Golf Sales Company (collectively, the “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 selected 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 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 a former MaxFli employee now working for 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 recently 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 recently submitted a report from its damages expert asserting that MaxFli is entitled to at least $18,500,000 in compensatory damages from the Company. The Company has submitted an 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 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 ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of June 30, 2002. However, management believes at this time that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company’s annual consolidated financial position, results of operations or cash flows.

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. The purchase commitments covered by these agreements aggregate approximately $4,000,000 related to golf ball materials per year for 2002 and 2003 and approximately $13,163,000 related to golf club materials through December 2004.

9. 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 for the periods indicated below consists of Callaway Golf carbon composite, titanium and stainless steel woods; Callaway Golf titanium and stainless steel irons; Callaway Golf wedges; Odyssey putters; and golf accessories such as golf bags, golf gloves, golf headwear, travel covers and bags, golf towels and golf umbrellas. The Golf Balls segment consists of golf balls that are designed, manufactured and marketed by the Company.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Beginning April 1, 2002, management changed its method of allocating certain corporate costs used in evaluating segment income (loss) before provision for income taxes. Prior period amounts have been reclassified to reflect the current allocation methodology. The table below contains information utilized by management to evaluate its operating segments for the interim periods presented (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(Unaudited)			
Net sales				
Golf clubs	$228,023	$232,719	$462,297	$482,558
Golf balls	24,159	20,936	46,265	32,463
	$252,182	$253,655	$508,562	$515,021
Income (loss) before provision for income taxes(1)				
Golf clubs	$ 72,239	$ 68,480	$136,761	$143,281
Golf balls	(1,593)	(4,248)	(6,150)	(10,600)
Reconciling items(2)	(9,863)	(19,014)	(20,060)	(31,655)
	$ 60,783	$ 45,218	$110,551	$101,026
Additions to long-lived assets				
Golf clubs	$ 7,110	$ 4,715	$ 14,006	$ 12,234
Golf balls	1,107	12,033	1,838	13,078
	$ 8,217	$ 16,748	$ 15,844	$ 25,312

(1) Prior year balances have been adjusted to reflect the current allocation methodology.

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

10. 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.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

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 company 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 the extent considered necessary 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 June 30, 2002 and 2001, the Company had approximately $137,755,000 and $88,282,000, respectively, of foreign exchange contracts outstanding. Of the total contracts outstanding at June 30, 2002 and 2001, approximately $41,977,000 and $35,826,000, 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 June 30, 2002, the net fair value of foreign currency-related derivatives designated as cash flow hedges or fair value hedges were recorded as current assets of $1,426,000 and current liabilities of $3,984,000.

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 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 three months ended June 30, 2002 and 2001, the Company recorded net losses of $4,531,000 and net gains of $346,000, respectively, in accumulated other comprehensive income. For the three months ended June 30, 2002 and 2001, the Company reclassified gains of $2,375,000 and $1,771,000, respectively, into earnings related to the release of the effective portion of gains on contracts designated as cash flow hedges. During the six months ended June 30, 2002 and 2001, the Company recorded net losses of $2,937,000 and net gains of $5,408,000, respectively, in accumulated other comprehensive income. For the six months ended June 30, 2002 and 2001, the Company reclassified gains of $2,935,000 and $2,285,000, respectively, into earnings related to the release of the effective portion of gains on contracts designated as cash flow hedges. During the three and six months ended June 30, 2002 $171,000 of gains were reclassified into earnings as a result of the discontinuance of cash flow hedges. During the three and six months ended June 30, 2001, no gains or losses were reclassified into earnings as a result of the discontinuance of cash flow hedges.

As of June 30, 2002, $345,000 of deferred net gains 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 gain or loss for derivative instruments that are designated and qualify as cash flow hedges is reported in other income (expense), net immediately. 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 other income (expense), net. During the three and six months ended June 30, 2002, the Company recorded gains of $560,000 and $717,000, respectively, as a result of changes in the spot-forward differential. The spot-forward differential recorded during the three and six months ended June 30, 2001 was $180,000 and $682,000, respectively, of net gains. 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 June 30, 2002 and 2001, the Company had approximately $95,778,000 and $52,456,000, respectively, of foreign contracts used to hedge balance sheet exposures outstanding. The gains and losses on foreign currency contracts used to hedge balance sheet exposures are recognized in other income (expense), net 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 three and six months ended June 30, 2002, the Company recorded net losses of $7,588,000 and $7,832,000, respectively, due to net realized and unrealized gains and losses on contracts used to hedge balance sheet exposure. During the three and six months ended June 30, 2001, the Company recorded net losses of $817,000 and net gains of $1,660,000, respectively.

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 excluded from income from operations.

As of the date of termination, 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 8 for a discussion of contingencies related to the termination of the Company’s derivative energy contract.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

11. Subsequent Event

In December 1998, the Company entered into a master lease agreement for the acquisition and lease of machinery and equipment utilized in the Company's golf ball operations. 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 is the end of the initial lease term. As of June 30, 2002, the estimated purchase price was approximately $49,856,000 (the actual purchase price is dependent in part upon interest rates on the date of purchase). During the first quarter of 2002, the Company began accruing the estimated difference between the total estimated cost to purchase the equipment and the estimated fair value of the equipment. This deficiency resulted in a charge of $1,306,000 recorded in cost of goods sold during the first quarter of 2002. During the second quarter of 2002, the Company received the results of an independent appraisal of the equipment and based upon the appraisal and the estimated purchase price, no further adjustment to the deficiency accrual was required as of June 30, 2002.

On August 12, 2002, pursuant to the master lease agreement and the Company's February 11, 2002 notice, the Company wired $50,598,000 in full satisfaction of the purchase price of the leased equipment. Due to a further decline in interest rates, the actual purchase price, net of the deficiency accrual recorded through June 30, 2002, exceeded the estimated fair value of the equipment. Therefore, a charge of $792,000 is expected to be recorded in cost of goods sold during the third quarter of 2002. In addition, the Company and lessor disagree on the calculation of the purchase price. Based on the Company's calculation, the Company wired to lessor $800,000 less than the amount lessor calculated as the payoff amount. The Company believes that its calculation of the purchase price is correct and supported by the terms of the master lease agreement. Depending upon the final resolution of the disagreement of the purchase price, an additional charge may be recorded in the period in which the disagreement is resolved.

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

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

Results of Operations

The Company's discussion and analysis of its financial condition, liquidity and results of operations are based upon the Company's consolidated condensed 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, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. On an on-going basis, the Company evaluates its estimates, including those related to provisions for warranty, uncollectible accounts receivable, inventory obsolescence, and market value estimates of derivative instruments. For example, in light of improvements in product durability and improvements in the ability to track defective products, the Company is currently collecting and analyzing additional information to determine whether the warranty reserve should be reduced. The Company anticipates that its analysis will be completed, and any reduction in the warranty reserve would be made, in the third quarter of 2002.

Three-Month Periods Ended June 30, 2002 and 2001

Net sales decreased 1% to $252.2 million for the three months ended June 30, 2002 as compared to $253.7 million for the comparable period in the prior year. The overall decrease in net sales is primarily due to a decrease in sales of woods, which decreased $29.3 million (23%) in the second quarter of 2002 as compared to the second quarter of 2001. The decrease in wood sales was substantially offset by a $6.9 million (10%) increase in sales of irons, a $2.8 million (13%) increase in sales of golf balls and a net $18.1 million (51%) increase in sales of putters and the Company's other products, as compared to the second quarter of 2001. A 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 overall decrease in net sales was partially offset by the weakening of the U.S. dollar in relation to other foreign currencies during the second quarter of 2002. As compared to the second quarter of 2001, the strengthening of foreign currency exchange rates compared to the U.S. dollar favorably impacted net sales for the second quarter of 2002 by approximately $1.1 million, as measured by applying second quarter 2001 exchange rates to second quarter 2002 net sales.

The Company believes that its overall net sales during the second quarter of 2002 were negatively affected by adverse economic conditions and continued economic uncertainty particularly in the United States, Japan and other parts of Asia. The Company's net sales 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 include the substantial discounting of competitors' current products and close-outs of products that were previously commercially successful, as well as significant retailer support programs. The Company also believes that its second quarter net sales were negatively affected by a decrease in rounds played. Golf Datatech has reported that in the United States rounds played were down 6% for April and May, as compared to the same period last year. Conversely, the Company believes that its overall net sales during the second quarter of 2002 were positively affected by an expanded product line, including the C4 Driver, Big Bertha Irons and HX Three-Piece and HX Two-Piece golf balls.

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Net sales information by product category is summarized as follows:

	For the Three Months Ended June 30,		Growth/(Decline)	
	2002	2001	Dollars	Percent
Net Sales (dollars in millions):				
Woods	$ 96.5	$125.8	$(29.3)	(23%)
Irons	78.4	71.5	6.9	10%
Golf Balls	23.7	20.9	2.8	13%
Putters, Accessories and Other	53.6	35.5	18.1	51%
	$252.2	$253.7	$ (1.5)	(1%)

The $29.3 million (23%) decrease in net sales of woods to $96.5 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 is 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 initial sales generated from the January 2002 introduction of Big Bertha Steelhead III Woods and the February 2002 introduction of Big Bertha C4 Drivers.

The $6.9 million (10%) increase in net sales of irons to $78.4 million represents an increase in both unit and dollar sales. The sales growth was due primarily to the January 2002 launch of Big Bertha Irons and Hawkeye VFT Irons launched in August 2001. These increases were partially offset by a decline in sales of Steelhead X-14 Irons, which are in their third year of sales.

The $2.8 million (13%) increase in net sales of golf balls to $23.7 million represents an increase in dollar sales and a slight decline in unit sales. The second quarter growth in golf ball dollar sales was largely attributable to the expansion of the Company’s golf ball product line offering to four models from only two in the comparable period of the prior year. This expanded product line resulted in a higher average selling price as compared to the same period of 2001. The Company initially launched the CTU 30 golf ball in November 2001, the HX golf ball in March 2002, and the HX Two-Piece golf ball in May 2002. The second quarter 2001 net sales included sales generated from the CB1 golf ball and Rule 35 golf ball. The CTU 30 golf ball is the successor ball to the Rule 35 golf ball.

The $18.1 million (51%) increase in sales of putters, accessories and other products is primarily attributable to increased sales of the Company’s Odyssey putters resulting from the January 2002 introduction of the Odyssey White Hot Two-Ball Putter combined with sales from the February 2002 launch of Callaway Golf gloves.

Net sales information by region is summarized as follows:

	For the Three Months Ended June 30,		Growth/(Decline)	
	2002	2001	Dollars	Percent
Net Sales (dollars in millions):				
United States	$143.6	$139.7	$ 3.9	3%
Japan	25.4	37.0	(11.6)	(31%)
Europe	46.4	37.1	9.3	25%
Rest of Asia	18.4	20.0	(1.6)	(8%)
Other Foreign Countries	18.4	19.9	(1.5)	(8%)
	$252.2	$253.7	$ (1.5)	(1%)

Net sales in the United States increased $3.9 million (3%) to $143.6 million during the second quarter of 2002 versus the second quarter of 2001. Overall, the Company’s sales in regions outside of the United States decreased $5.4 million (5%) to $108.6 million during the second quarter of 2002 versus the same quarter of 2001. This decrease is primarily attributable to a $11.6 million (31%) decrease in sales in Japan, a $1.6 million (8%) decrease in the Rest of Asia, which includes Korea, and a $1.5 million (8%) decrease in other regions outside of the United States. This decrease was partially offset by a $9.3 million (25%) increase in Europe. The Company’s net sales in regions outside of the United States were also favorably affected by the overall strengthening of foreign currency exchange rates compared to the U.S dollar. Had exchange rates for the second quarter of 2002 been the same as the second quarter 2001 exchange rates, overall sales in regions outside of the United States would have been approximately 1% lower than reported.

For the second quarter of 2002, the Company’s overall gross profit increased $5.6 million to $137.5 million from $131.9 million in the second quarter of 2001, and increased to 55% of net sales in 2002 from 52% in 2001. The Company’s gross profit percentage was favorably impacted by a reduction in the Company’s manufacturing labor and overhead expenses as a percent of net sales, a favorable shift in club product mix and improved golf ball profit margins, partially offset by a lower average selling price. The improvement in golf ball margins was attributable to increases in plant utilization and production yields.

Selling expenses increased $0.8 million (1%) in the second quarter of 2002 to $54.9 million from $54.1 million in the comparable period of 2001, and were 22% and 21% of net sales, respectively. This increase was primarily due to increased employee expenses of $1.9 million and tour professional expenses of $1.0 million. These increases were partially offset by decreases in advertising and promotion related expenses of $2.1 million.

General and administrative expenses decreased $5.6 million (27%) in the second quarter of 2002 to $15.0 million from $20.6 million in the comparable period of 2001, and were 6% and 8% of net sales, respectively. This decrease is mainly attributable to a decrease of $2.9 million in employee costs, a $1.5 million decrease in depreciation and amortization expenses (primarily due to the implementation of SFAS No. 142), and a reduction in deferred compensation expenses of $1.2 million.

Research and development expenses remained constant at $8.4 million in the second quarter of 2002 as compared to the second quarter of 2001. As a percentage of net sales, the expenses also remained constant at 3%.

Other income totaled $1.6 million in the second quarter of 2002 as compared to other expenses of $3.6 million in the second quarter of 2001. The $5.2 million of additional income is primarily attributable to unrealized energy derivative losses of $7.7 million recognized in the second quarter of 2001 associated with the valuation of the energy contract that was terminated in the fourth quarter of 2001 (see “Supply of Electricity and Energy Contracts” below), combined with a $1.0 million increase in net foreign currency transactions gains. These increases were partially offset by decreases in royalty income of $1.8 million, a reduction in market returns on the deferred compensation plan assets of $1.3 million, and declines in interest income and other expenses of $0.4.

Net income for the second quarter of 2002 increased 38% to $37.1 million from $27.0 million in 2001. Earnings per diluted share during the year increased 53% to $0.55 in 2002 as compared to $0.36 in 2001. During the second quarter of 2001, the Company recorded a non-cash charge of $6.2 million after-tax or $0.08 per diluted share, as a result of the change in estimated market value of the Company’s energy supply contract that was terminated in the fourth quarter of 2001 (see “Supply of Electricity and Energy Contracts” below). Excluding this non-cash energy supply contract charge, the Company’s net income for 2002 as compared to 2001 would have increased 12% from $33.2 million and diluted earnings per share would have increased 25% from $0.44.

Six-Month Periods Ended June 30, 2002 and 2001

Net sales decreased 1% to $508.6 million for the six months ended June 30, 2002 as compared to $515.0 million for the comparable period in the prior year. The overall decrease in net sales is primarily due to a decrease in sales of woods, which decreased $76.9 million (28%) in the first half of 2002 as compared to the comparable period of 2001. The decrease in wood sales was substantially offset by a $26.1 million (19%) increase in sales of irons, a $13.8 million (42%) increase in sales of golf balls and a net $30.6 million (45%) increase in sales of putters and the Company's other products, as compared to the second quarter of 2001. A 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. In addition, the strength of the U.S. dollar in relation to other foreign currencies had an adverse effect upon the Company's overall net sales for the first half of 2002. As compared to the first half of 2001, a decline in foreign currency exchange rates adversely impacted net sales for the first half of 2002 by approximately $4.7 million, as measured by applying exchange rates for the first six months of 2001 to sales for the first six months of 2002.

The Company believes that its overall net sales during the first half of 2002 were negatively affected by adverse economic conditions and continued economic uncertainty particularly in the United States, Japan and other parts of Asia. The Company's net sales 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 include the substantial discounting of competitors' current products and close-outs of products that were previously commercially successful, as well as significant retailer support programs. The Company also believes that its net sales for the first half of 2002 were negatively affected by a decrease in rounds played. Golf Datatech has reported that from January through May rounds played in the United States declined 3%, as compared to the same period last year. Conversely, the Company believes that its net sales during the first half of 2002 were positively affected by an expanded product line, including the C4 Driver, Big Bertha Irons and HX Three-Piece and HX Two-Piece golf balls.

Net sales information by product category is summarized as follows:

	For the Six Months Ended June 30,		Growth/(Decline)	
	2002	2001	Dollars	Percent
Net Sales (dollars in millions):				
Woods	$202.0	$278.9	$(76.9)	(28%)
Irons	161.8	135.7	26.1	19%
Golf Balls	46.3	32.5	13.8	42%
Putters, Accessories and Other	98.5	67.9	30.6	45%
	$508.6	$515.0	$ (6.4)	(1%)

The $76.9 million (28%) decrease in net sales of woods to $202.0 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 is 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 initial sales generated from the January 2002 introduction of Big Bertha Steelhead III Woods and the February 2002 introduction of Big Bertha C4 Drivers.

The $26.1 million (19%) increase in net sales of irons to $161.8 million represents an increase in both unit and dollar sales. The sales growth was due primarily to the January 2002 launch of Big Bertha Irons and Hawkeye VFT Irons launched in August 2001. These increases were partially offset by a decline in sales of Steelhead X-14 Irons, which are in their third year of sales.

The $13.8 million (42%) increase in net sales of golf balls to $46.3 million represents an increase in both unit and dollar sales. The golf ball growth was largely attributable to the expansion of the Company's golf ball product line offering to four models from only two in the comparable period of the prior year. This expanded product line resulted in a higher average selling price as compared to the same period of 2001. The Company initially launched the CTU 30 golf ball in November 2001, the HX golf ball in March 2002, and the HX Two-Piece golf ball in May 2002. Net sales for the first half of 2001 included sales generated from the CB1 golf ball and Rule 35 golf ball. The CTU 30 golf ball is the successor ball to the Rule 35 golf ball.

The $30.6 million (45%) increase in sales of putters, accessories and other products is primarily attributable to increased sales of the Company's Odyssey putters resulting from the January 2002 introduction of the Odyssey White Hot Two-Ball Putter combined with sales from the February 2002 launch of Callaway Golf gloves.

Net sales information by region is summarized as follows:

	For the Six Months Ended June 30,		Growth/(Decline)	
	2002	2001	Dollars	Percent
Net Sales (dollars in millions):				
United States	$294.5	$287.5	$ 7.0	2%
Japan	56.8	78.1	(21.3)	(27%)
Europe	87.1	74.5	12.6	17%
Rest of Asia	34.0	37.6	(3.6)	(10%)
Other Foreign Countries	36.2	37.3	(1.1)	(3%)
	$508.6	$515.0	$ (6.4)	(1%)

Net sales in the United States increased $7.0 million (2%) to $294.5 million during the first half of 2002 versus the first half of 2001. Overall, the Company's sales in regions outside of the United States decreased $13.4 million (6%) to $214.1 million during the first half of 2002 versus the same period of 2001. This decrease is primarily attributable to a $21.3 million (27%) decrease in sales in Japan, a $3.6 million (10%) decrease in the Rest of Asia, which includes Korea, and a $1.1 million (3%) decrease in other regions outside of the United States. This decrease was partially offset by a $12.6 million (17%) increase in Europe. The Company's net sales in regions outside of the United States were also adversely affected by a decline in foreign currency exchange rates. Had exchange rates for the first half of 2002 been the same as the first half of 2001 exchange rates, overall sales in regions outside of the United States would have been approximately 2% higher than reported.

For the six months ended June 30, 2002, gross profit decreased to $265.9 million from $268.8 million in the comparable period of 2001, and as a percentage of net sales remained constant at 52%. The Company's gross profit percentage was favorably impacted by a reduction in the Company's manufacturing labor and overhead expenses as a percent of net sales and improved golf ball profit margins, offset by a lower average selling price and the $1.3 million charge related to the purchase of the Company's golf ball manufacturing equipment (see below "Financial Condition and Liquidity"). The improvement in golf ball margins was attributable to increases in sales volume, plant utilization and production yields.

Selling expenses increased $4.8 million (4%) in the first half of 2002 to $112.2 million from $107.4 million in the comparable period of 2001, and were 22% and 21% of net sales, respectively. This increase was primarily due to increases in promotional expenses of $1.9 million, professional golf tour expenses of $1.8 million, advertising expenses of $1.4 million and commission expenses of $1.3 million. These increases were partially offset by decreases in consulting fees of $1.4 million.

General and administrative expenses decreased $12.0 million (30%) in the first half of 2002 to $28.4 million from $40.4 million in the comparable period of 2001, and were 6% and 8% of net sales, respectively. This decrease is mainly attributable to a decrease of $5.9 million in employee costs, a $3.0 million decrease in depreciation and amortization expenses (primarily due to the implementation of SFAS No. 142), reduced facility costs of $1.0 million, and a $1.0 million decrease in bad debt expense.

Research and development expenses decreased $1.1 million (6%) in the first half of 2002 to $16.3 million from $17.4 million in the comparable period of 2001. As a percentage of net sales, the expenses remained constant at 3%. The dollar decrease resulted primarily from a $0.8 million decrease in employee costs.

Other income totaled $1.5 million in the second half of 2002 as compared to other expenses of $2.6 million in the second half of 2001. The $4.2 million of additional income is primarily attributable to unrealized energy derivative losses of $7.7 million recognized in the prior year associated with the valuation of the energy contract that was terminated in the fourth quarter of 2001 (see “Supply of Electricity and Energy Contracts” below), combined with a $0.2 million increase in net foreign currency transactions gains. These increases were partially offset by decreases in royalty income of $1.7 million, and a decline in interest income of $1.6 million.

Net income for the six months ended June 30, 2002 increased 11% to $67.8 million from $61.1 million in 2001. Earnings per diluted share during the year increased 19% to $0.99 in 2002 as compared to $0.83 in 2001. During the first half of 2001, the Company recorded a non-cash charge of $6.2 million after-tax or $0.08 per diluted share, as a result of the change in estimated market value of the Company’s energy supply contract that was terminated in the fourth quarter of 2001 (see “Supply of Electricity and Energy Contracts” below). Excluding this non-cash energy supply contract charge, the Company’s net income for 2002 as compared to 2001 would have increased 1% from $67.3 million and diluted earnings per share would have increased 9% from $0.91.

Financial Condition and Liquidity

Cash and cash equivalents increased $7.8 million (9%) to $92.1 million at June 30, 2002, from $84.3 million at December 31, 2001. The increase primarily resulted from cash provided by operating activities of $46.6 million, partially offset by cash used in financing and investing activities of $30.9 million and $9.3 million, respectively. Cash flows provided by operating activities reflect net income adjusted for depreciation and amortization ($84.9 million), decreases in inventory ($27.0 million) and other assets ($13.0 million) combined with increases in income taxes payable ($22.3 million) and accounts payable and accrued expenses ($15.3 million), partially offset by increases in accounts receivable ($120.9 million). Cash flows used in financing activities are primarily attributable to the acquisition of treasury stock ($33.2 million) and the payment of dividends ($9.4 million), partially offset by proceeds from the exercise of employee stock options ($9.7 million) and purchases under the employee stock purchase plan ($3.2 million). Cash flows used in investing activities are primarily attributable to capital expenditures ($14.6 million) and cash paid for investments ($2.0 million), partially offset by net proceeds from sales of marketable securities ($6.5 million).

The Company’s accounts receivable increased $126.2 million from December 31, 2001. This increase is consistent with seasonal trends (see “Seasonality and Adverse Weather Conditions” below). The Company’s accounts receivable also increased $32.9 million over the Company’s accounts receivable at June 30, 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 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.

The Company’s inventory decreased $22.1 million from December 31, 2001. This decrease is consistent with seasonal trends (see “Seasonality and Adverse Weather Conditions” below). The Company’s inventory also increased $6.8 million as compared to June 30, 2001. This increase is primarily attributable to the Company’s broader product line, including four models of golf balls, as compared to two models at June 30, 2001.

The Company’s principal sources of liquidity, both on a short-term and long-term basis, have been cash flow provided by operations and the Company’s credit facilities. The Company currently expects this trend to continue. The Company has a revolving credit facility for up to $120.0 million (the “Amended Credit Agreement”) and an $80.0 million accounts receivable securitization facility (the “Accounts Receivable Facility”) which expire in February 2004. During the first half of 2002, the Company did not utilize either its Accounts Receivable Facility or its line of credit under the Amended Credit Agreement. At June 30, 2002, the

Company had $120.0 million available under the Amended Credit Agreement, subject to meeting certain availability requirements under a borrowing base formula and other limitations. Also at June 30, 2002, there were no advances under the Accounts Receivable Facility, leaving up to $80.0 million available under this facility. See Notes 5 and 6 to the Consolidated Condensed Financial Statements for further detail.

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 for a total of $100.0 million.

Also 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 $17.7 million to repurchase 1.0 million shares of its Common Stock at an average cost of $17.31 per share through June 30, 2002.

The following table gives additional guidance related to contractual obligations and commercial commitments as of June 30, 2002 (in millions):

	Payments Due By Period				
	Total	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Contractual Obligations:					
Operating Leases(1)	$14.4	$ 4.6	$ 4.7	$3.9	$1.2
Unconditional Purchase Obligations(2)	21.2	4.0	17.2	—	—
Long-Term Debt(3)	4.4	2.8	1.6	—	—
Foreign Exchange Contracts(4)	2.6	2.6	—	—	—
Total Contractual Cash Obligations	$42.6	$14.0	$23.5	$3.9	$1.2

		Amount of Commitment Expiration Per Period			
	Total Amounts Committed	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Other Commercial Commitments:					
Lines of Credit(5)	$ —	$ —	$ —	$ —	$ —
Accounts Receivable Securitization(5)	—	—	—	—	—
Golf Ball Equipment Purchase(6)	49.8	49.8	—	—	—
Total Commercial Commitments	$49.8	$49.8	$ —	$ —	$ —

(1) The Company leases certain warehouse, distribution and office facilities as well as office and manufacturing equipment under operating leases. The amount presented in the table represents commitments for minimum lease payments under non-cancelable operating leases and includes $1.0 million related to lease payments due on the golf ball manufacturing equipment through August 2002 (see note (6) below).

(2) The amounts indicated in this line item reflect long-term purchase agreements for various key raw materials. The purchase commitments covered by these agreements aggregate approximately $4.0 million per year for 2002 and 2003 related to golf ball materials and approximately $13.2 million related to golf club materials through December 2004. 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) In April 2001, the Company entered into a note payable 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 annual amounts payable in 2002 and 2003 are $2.7 million and $3.3 million, respectively.

(4) The Company enters into foreign exchange contracts to hedge against exposure to changes in foreign currency exchange rates. The Company does not enter into foreign exchange contracts for speculative purposes and hedging contracts mature within twelve months. At June 30, 2002, the Company had approximately $137.8 million of foreign exchange contracts outstanding. 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 June 30, 2002, the net fair values of foreign currency-related derivatives were recorded as current assets of $1.4 million and current liabilities of $4.0 million.

(5) The Company has a revolving credit facility for up to $120.0 million (the “Amended Credit Agreement”) and an $80.0 million accounts receivable securitization facility (the “Accounts Receivable Facility”) which expire in February 2004. During the first half of 2002, the Company did not utilize either its Accounts Receivable Facility or its line of credit under the Amended Credit Agreement. At June 30, 2002, the Company had $120.0 million available under the Amended Credit Agreement, subject to meeting certain availability requirements under a borrowing base formula and other limitations. Also at June 30, 2002, there were no advances under the Accounts Receivable Facility, leaving up to $80.0 million available under this facility. See Notes 5 and 6 to the Consolidated Condensed Financial Statements for further detail.

(6) In December 1998, the Company entered into a master lease agreement for the acquisition and lease of machinery and equipment utilized in the Company’s golf ball operations. 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 is the end of the initial lease term. As of June 30, 2002, the estimated purchase price was $49.8 million. On August 12, 2002, the Company purchased the golf ball equipment. (See Note 11 (Subsequent Event) to the Company’s Consolidated Condensed Financial Statements.)

Although the Company’s golf club operations are mature and historically have generated cash from operations, the Company’s golf ball operations are relatively new and through June 30, 2002 have not generated cash flows sufficient to fund these operations. Furthermore, although the Company’s golf ball operations have improved since inception, the Company has not achieved the sales or production efficiencies necessary for its golf ball business to be profitable. The Company continues to evaluate its golf ball operations and is reviewing the viability of its current business model for the golf ball business.

Based upon its current operating plan, analysis of its consolidated financial position and projected future results of operations, the Company believes that its operating cash flows, together with its credit facilities, will be sufficient to finance current operating requirements, including planned capital expenditures, 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 or its ability to meet its future cash requirements (see “Certain Factors Affecting Callaway Golf Company” below).

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 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 Forged Titanium 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 U.S., 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 professional golf tours around the world the option of adopting 0.830 as the COR limit for such tours. 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 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 professionals 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 competitors, 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 initial 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. These actions will affect the Company's business in the United States and Canada in the third quarter of 2002, but the extent of the impact is not currently known. The marketplace in these countries was already very competitive, and the extent to which consumers and/or retailers will return ERC II Drivers is not currently known.

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, and expects to launch those products as appropriate. In addition, the Company has developed new driver products for sale in R&A jurisdictions that take advantage of the absence of COR restrictions in those areas. While the Company feels 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 feel that its driver products that conform to the 0.830 limit have performance and other attributes that make 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 was 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.” In applying these accounting principles, the Company sought and received guidance from its auditors and others.

The Company believes the Enron Contract has been terminated, and as of August 12, 2002, 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) have had a significant adverse effect upon the Company’s business. Any such additional events would likely have an adverse effect upon an already fragile 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), 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 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 in connection with companies that have recently failed. 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. Furthermore, even if economic conditions were to improve during the latter part of 2002, the Company's sales in 2002 would not experience a corresponding improvement because the golf selling season would largely be over.

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 "Results of Operations" above.

The effects of foreign currency fluctuations can be significant. The Company therefore engages in certain hedging activities to mitigate over time the impact of foreign currency fluctuations 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 or the number of rounds played in 1999, 2000 or 2001. Golf Datatech has reported that the number of rounds played during the first 5 months of 2002 decreased 3.2% as compared to the same period of 2001. 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. The Company's future club sales growth therefore may be limited unless there is growth in the worldwide premium golf club market or it can grow its already significant market share.

Golf Balls. The Company began selling its golf balls in February 2000 and does not have as significant of a market share as it does in the club business. 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 "Financial Condition and Liquidity" above).

Golf Ball Costs

The cost of entering the golf ball business has been significant. 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. 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 operations have shown improvement, there is no assurance that the Company will be able to achieve the sales or production efficiencies 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 (see also "Financial Condition and Liquidity" above).

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 forecast. 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 experienced periods of blackouts during which electricity was not available. The Company has experienced one blackout period to date, and it is possible the Company could experience additional blackout periods particularly in the warm weather months when demand for electricity is at its peak. 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.

During the second quarter of 2001, the Company entered into a long-term 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. To obtain a more favorable price and to assure adequate supplies during times of peak loads, the Company agreed to purchase a significantly greater supply of electricity than it expected to use in its business. The Company had expected to be able to re-sell some or all of this excess supply and thereby reduce the net price of the electricity it uses in its business. However, due to cooler than normal weather, government intervention and market and regulatory imperfections, the market price for electricity in California dropped significantly. As a result, the Company was unable to resell the excess supply of electricity at favorable rates and thus the net cost of the electricity used in the Company's business was higher than expected. In November 2001, the Company terminated its long-term supply contract and 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, 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 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. 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 "International Risks" below).

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, 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, 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. There are also several other competitors, including Nike and Taylor Made, that have introduced or will introduce golf ball designs that directly compete with the Company's products, and several manufacturers in Japan have announced their plans to expand their businesses in the United States. Furthermore, as competition in this business increases, many of these competitors are substantially discounting the prices of their products. 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 that are profitable. There can be no assurance that the Company's golf balls will obtain the market acceptance necessary to be commercially successful.

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. For example, the Company's new HX Golf Balls employ revolutionary aerodynamic technology. This aerodynamic technology is reflected in the Company's patented tubular lattice network (a criss-crossing network of tube-like projections that form hexagonal and pentagonal patterns around the golf ball, as opposed to the conventional dimple), which gives it a unique appearance different from any other golf ball on the market. If a significant number of golfers are not willing to purchase a golf ball with this unique appearance, it will not be commercially successful, notwithstanding the performance advantages.

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, the Company's new Big Bertha C4 Driver is made of a compression cured carbon composite. All current leading drivers in the marketplace are made of metal, generally either steel or titanium. Although the Company believes that its new C4 Drivers provide exceptional performance, if a significant number of golfers are not willing to pay premium prices for a non-metallic driver, the C4 Driver will not be commercially successful.

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. For example, because the Company's titanium metal woods sell at higher price points and generally achieve higher margins than many of the Company's other products, the Company's overall sales and gross margins are generally positively impacted during periods in which the Company has increased sales of titanium woods (which is generally the first year after introduction).

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. In the golf club and golf ball businesses, sales to retailers are generally seasonal due to lower demand in the retail market during cold weather months. 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. Many of these sales are pre-booked 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 recently departed from that practice and now 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 "USGA Action" above.

All of the Company's current products, with the exception of the ERC II (and ERC II Pro Spec) Drivers, are believed to be "conforming" under the Rules of Golf as published by the USGA. The Company believes that the USGA's ruling that the ERC II Drivers are non-conforming has had a significant adverse affect upon sales of the ERC II Drivers in the United States and that it may have injured sales of other conforming products or otherwise damaged the brand. 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 ERC II Drivers will not be conforming in certain competitions involving highly skilled golfers and effective January 1, 2008 the ERC II Drivers would not be conforming under the Rules of Golf as published by the R&A. These new R&A restrictions could affect sales of the Company's ERC II 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. 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.

Golf Professional Endorsements

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

Golf Clubs. 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. Although the Company previously created cash pools that rewarded such usage, the Company has generally discontinued such programs except in select markets on a limited basis. Instead, the Company is allocating these resources to other tour programs. In addition, many other companies are aggressively seeking the patronage of these professionals, and are offering many inducements, including specially designed products and significant cash rewards. 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. The Company's lack of cash inducements for non-staff golfers resulted in a decrease in usage of the Company's clubs by professional golfers in 2001 and could result in a further decrease in 2002. The Company continues to evaluate from time to time whether to implement programs that reward usage of the Company's products. While it is not clear to what extent professional usage contributes to retail sales, it is possible that a decline in the level of professional usage of the Company's products could have a material adverse effect on the Company's 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 the market leader has obtained a very high degree of tour penetration. While almost 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 ball and other factors to attract professionals to the product. In the future, the Company may or may not increase its tour spending in support of its golf ball. It is not clear to what extent use by professionals is important to the commercial success of the Company's golf balls, but it is possible that the results of the Company's golf ball business could be significantly affected by its success or lack of success in securing acceptance on the professional tours.

Intellectual Property and Proprietary Rights

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

An increasing number of the Company's competitors have, like the Company itself, sought to obtain patent, trademark, copyright or other protection of their proprietary rights and designs for golf clubs and golf balls. From time to time, others have 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.

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 sufficient reserves for warranty claims. If the Company were to experience an unusually high incidence of breakage or other product problems in excess of these reserves, the Company's financial results could be adversely affected.

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) increased difficulty in managing foreign operations from the United States and (v) 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 affect 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 uncollectible 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 of a significant portion of the Company's customers to meet their obligations to the Company 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, either as a result of an internal system malfunction or infection from an external computer virus, 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 3. ***Quantitative and Qualitative Disclosures about Market Risk***

The Company uses derivative financial instruments for hedging purposes to limit its exposure to changes in foreign 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 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 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 company 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 the extent considered necessary to meet the Company's objectives of reducing 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. The Company's hedging contracts mature within twelve months.

At June 30, 2002 and 2001, the Company had approximately $137.8 million and $88.3 million, respectively, of foreign exchange contracts outstanding. Of the total contracts outstanding at June 30, 2002 and 2001, approximately $42.0 million and $35.8 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 June 30, 2002, the net fair value of foreign currency-related derivatives designated as cash flow hedges or fair value hedges were recorded as current assets of $1.4 million and current liabilities of $4.0 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 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 three months ended June 30, 2002 and 2001, the Company recorded net losses of $4.5 million and net gains of $0.3 million, respectively, in accumulated other comprehensive income. For the three months ended June 30, 2002 and 2001, the Company reclassified gains of $2.4 million and $1.8 million, respectively, into earnings related to the release of the effective portion of gains on contracts designated as cash flow hedges. During the six months ended June 30, 2002 and 2001, the Company recorded net losses of $3.0 million and net gains of $5.4 million, respectively, in accumulated other comprehensive income. For the six months ended June 30, 2002 and 2001, the Company reclassified gains of $2.9 million and $2.3 million, respectively, into earnings related to the release of the effective portion of gains on contracts designated as cash flow hedges. During the three and six months ended June 30, 2002, $0.2 million of gains were reclassified into earnings as a result of the discontinuance of cash flow hedges. During the three and six months ended June 30, 2001, no gains or losses were reclassified into earnings as a result of the discontinuance of cash flow hedges.

As of June 30, 2002, $0.3 million of deferred net gains 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 gain or loss for derivative instruments that are designated and qualify as cash flow hedges is reported in other income (expense), net immediately. 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 other income (expense), net. During the three and six months ended June 30, 2002, the Company recorded gains of $0.6 million and $0.7 million, respectively, as a result of changes in the spot-forward differential. The spot-forward differential recorded during the three and six months ended June 30, 2001 was $0.2 and $0.7, respectively, of net gains. 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 June 30, 2002 and 2001, the Company had approximately $95.8 million and $52.5 million, respectively, of foreign contracts used to hedge balance sheet exposures outstanding. The gains and losses on foreign currency contracts used to hedge balance sheet exposures are recognized in other income (expense), net 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 three and six months ended June 30, 2002, the Company recorded net losses of $7.6 million and $7.8 million, respectively, due to net realized and unrealized gains and losses on contracts used to hedge balance sheet exposure. During the three and six months ended June 30, 2001, the Company recorded net losses of $0.8 million and net gains of $1.7 million, respectively.

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 June 30, 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 in earnings from the Company's foreign-currency derivative financial instruments, calculated using the sensitivity analysis model described above, is $14.8 million at June 30, 2002. 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 “Supply of Electricity and Energy Contracts” above.

Interest Rate Fluctuations

Additionally, the Company is exposed to interest rate risk from its Amended Credit Agreement and Accounts Receivable Facility (see Notes 5 and 6 to the Company’s Consolidated Condensed Financial Statements) which are indexed to the London Interbank Offering Rate and Redwood Receivables Corporation Commercial Paper Rate. No amounts were advanced or outstanding under these facilities at June 30, 2002.

Notes 5 and 6 to the Company’s Consolidated Condensed Financial Statements outline the principal amounts, if any, and other terms required to evaluate the expected cash flows and sensitivity to interest rate changes.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

The Company, incident to its business activities, is often the plaintiff in legal proceedings, both domestically and abroad, in various stages of development. In conjunction with the Company’s program of enforcing its proprietary rights, the Company has initiated or may initiate actions against alleged infringers under the intellectual property laws of various countries, including, for example, the 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. Based upon the Company’s experience, the Company believes that the outcome of these matters individually and in the aggregate will not have a material adverse effect upon the financial position or results of operations of the Company. It is possible, however, that in the future one or more defenses or claims asserted by defendants in one or more of those actions may succeed, resulting in the loss of all or part of the rights under one or more patents, loss of a trademark, a monetary award against the Company or some other loss to the Company. One or more of these results could adversely affect the Company’s overall ability to protect its product designs and ultimately limit its future success in the marketplace.

In addition, the Company from time to time receives information claiming that products sold by the Company infringe or may infringe patent or other intellectual property rights of third parties. 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, 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 (collectively, the “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 selected 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 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 a former MaxFli employee now working for 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 recently 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 recently submitted a report from its damages expert asserting that MaxFli is entitled to at least $18.5 million in compensatory damages from the Company. The Company has submitted an 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 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 ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of June 30, 2002. However, management believes at this time that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

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

None

Item 3. ***Defaults Upon Senior Securities***

None

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

On May 6, 2002, the Company held its 2002 Annual Meeting of Shareholders. Ronald A. Drapeau, William C. Baker, Ronald S. Beard, Vernon E. Jordan, Jr., Yotaro Kobayashi and Richard L. Rosenfield were elected to the Board of Directors.

The voting results for the election of directors were as follows:

Name	Votes For	Votes Withheld
Ronald A. Drapeau	60,522,442	8,281,237
William C. Baker	66,785,245	2,045,434
Ronald S. Beard	66,474,520	2,329,159
Vernon E. Jordan, Jr.	66,575,944	2,227,735
Yotaro Kobayashi	67,274,031	1,529,648
Richard L. Rosenfield	66,751,750	2,051,929

Item 5. ***Other Information***

None

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

a. *Exhibits*

3.1	Certificate of Incorporation, incorporated herein by this reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission ("Commission") on July 1, 1999 (file no. 1-10962).
3.2	First Amended and Restated Bylaws, effective August 17, 2001, incorporated herein by this reference to the corresponding exhibit 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).
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 Chemical Mellon Shareholder Services as Rights Agent dated as of June 21, 1995, incorporated herein by this reference to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for the period 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 Callaway Golf Company and Mellon Investor Services, LLC, incorporated herein by this reference to the corresponding exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2001.
4.4	Certificate of Determination of Rights, Preferences, Privileges and Restrictions of Series A Junior Participating Preferred Stock, incorporated herein by this reference to the corresponding exhibit 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).
10.53	Second Amended Executive Officer Employment Agreement, effective as of June 1, 2002, by and between the Company and Ronald A. Drapeau.(†)
10.54	First Amended Executive Officer Employment Agreement, effective as of June 1, 2002, by and between the Company and Steven C. McCracken.(†)
10.55	First Amended Executive Officer Employment Agreement, effective as of June 1, 2002, by and between the Company and Bradley H. Holiday.(†)
10.56	First Amended Executive Officer Employment Agreement, effective as of June 1, 2002, by and between the Company and Robert A. Penicka.(†)
99.1	Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(†)

(†) Included with this Report.

b. *Reports on Form 8-K*

None

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SIGNATURES

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

CALLAWAY GOLF COMPANY

By: /s/ BRADLEY J. HOLIDAY

Bradley J. Holiday
Executive Vice President and
Chief Financial Officer

Date: August 12, 2002

EXHIBIT INDEX

Exhibit	Description
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EXHIBIT 10.53

SECOND AMENDED EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Second Amended Executive Officer Employment Agreement ("Second Amended Agreement") is entered into as of June 1, 2002, by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Company"), and RONALD A. DRAPEAU ("Mr. Drapeau").

A. The Company and Mr. Drapeau are parties to that certain Executive Officer Employment Agreement entered into as of September 1, 2000, as amended May 15, 2001 (collectively the "Original Agreement").

B. Pursuant to Section 16 of the Original Agreement, the parties desire to supersede and replace the Original Agreement in the manner set forth herein. The Original Agreement shall no longer be of any force or effect except as restated in this Second Amended Agreement. To the extent there is any conflict between the Original Agreement and this Second Amended Agreement, this Second Amended Agreement shall control and all agreements shall be construed so as to give the maximum force and effect to the provisions of this Second Amended Agreement.

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

1. TERM. The term of this Second Amended Agreement shall remain the same as set forth in the Original Agreement, as restated below:

(a) The Company hereby employs Mr. Drapeau and Mr. Drapeau hereby accepts employment pursuant to the terms and provisions of this Second Amended Agreement for the period commencing September 1, 2000 and terminating December 31, 2003 ("Initial Term").

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

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

(d) Upon expiration of this Second Amended Agreement, Mr. Drapeau's status shall be one of at will employment.

2. SERVICES.

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

(b) Mr. Drapeau 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 Mr. Drapeau agree that the services being provided by Mr. Drapeau for the Company under the terms of this Agreement are unique and intellectual in character and that Mr. Drapeau 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, Mr. Drapeau agrees to devote his full productive time and best efforts to the performance of his duties hereunder pursuant to the supervision and direction of the Company's Board of Directors. Mr. Drapeau further agrees, as a condition to the performance by the Company of each and all of its obligations hereunder, that so long as Mr. Drapeau is employed by the Company, Mr. Drapeau 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 Board of Directors' prior written consent. Mr. Drapeau 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 Mr. Drapeau 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 Mr. Drapeau's work for the Company.

4. COMPENSATION.

(a) The Company agrees to pay Mr. Drapeau a base salary at the rate of $700,000.00 per year.

(b) The Company shall provide Mr. Drapeau 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. Mr. Drapeau 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 Mr. Drapeau.

5. EXPENSES AND BENEFITS.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4 hereof, the Company shall reimburse Mr. Drapeau for all reasonable, customary and necessary expenses incurred in the performance of Mr. Drapeau's duties hereunder. Mr. Drapeau 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 Board of Directors of the Company.

(b) Paid Time Off. Mr. Drapeau shall accrue thirty-five (35) 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 Mr. Drapeau's paid time off. The Company reserves the right to pay Mr. Drapeau for unused, accrued paid time off benefits in lieu of providing time off.

(c) Benefits. During Mr. Drapeau's employment with the Company pursuant to this Second Amended Agreement, the Company shall provide for Mr. Drapeau 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 Mr. Drapeau is insurable under usual underwriting standards, term life insurance coverage on Mr. Drapeau's life, payable to whomever he directs, in an amount equal to $1,000,000.00 in coverage, provided that Mr. Drapeau's physical condition does not prevent him 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 Mr. Drapeau 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. Mr. Drapeau shall be indemnified by the Company for certain excise tax obligations, as more specifically set forth in Exhibit A to this Second Amended Agreement.

7. BUSINESS ISSUES.

(a) Other Business. To the fullest extent permitted by law, Mr. Drapeau agrees that, while employed by the Company, Mr. Drapeau 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 Mr. Drapeau's duties under this Second Amended 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 duties hereunder, Mr. Drapeau 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 Mr. Drapeau 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, Mr. Drapeau 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, Mr. Drapeau shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Mr. Drapeau's duties and obligations to the Company.

(e) Non-Interference. While employed by the Company, and for one (1) year thereafter, Mr. Drapeau 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. Mr. Drapeau 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. Mr. Drapeau's employment under this Second Amended 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, Mr. Drapeau 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 Mr. Drapeau as of the date of such termination. In addition to the foregoing and subject to the provisions of Section 19, Mr. Drapeau shall be entitled to Special Severance as described in Section 19 and any other benefit provided in this Second Amended Agreement.

(b) Termination by the Company for Substantial Cause. Mr. Drapeau's employment under this Second Amended 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, Mr. Drapeau 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 Mr. Drapeau to substantially perform his duties, material breach of this Second Amended 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 Mr. Drapeau for Substantial Cause. Mr. Drapeau's employment under this Second Amended Agreement may be terminated immediately by Mr. Drapeau for substantial cause at any time. In the event of a termination by Mr. Drapeau for substantial cause, Mr. Drapeau 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 Mr. Drapeau as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 19, Mr. Drapeau shall be entitled to Special Severance as described in Section 19 and any other benefit provided in this Second Amended Agreement. "Substantial cause" shall mean for purposes of this subsection a material reduction in Mr. Drapeau's authority or responsibilities (including, but not limited to, any failure to nominate Mr. Drapeau as a member of the Board of Directors of the Company at any election of Directors during the term of this Agreement), or a material breach of this Second Amended Agreement by the Company.

(d) Termination Due to Permanent Disability. Subject to all applicable laws, Mr. Drapeau's employment under this Second Amended Agreement may be terminated immediately by the Company in the event Mr. Drapeau becomes permanently disabled. Permanent disability shall be defined as Mr. Drapeau's failure to perform or being unable to perform all or substantially all of Mr. Drapeau's duties under this Second Amended 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 Mr. Drapeau, and one of which has been selected by the two other physicians jointly. In the event of a termination by the Company due to Mr. Drapeau's permanent disability, Mr. Drapeau shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) severance payments equal to Mr. Drapeau'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 twenty-four (24) months from the date of termination; (iii) the immediate vesting of outstanding but unvested stock options held by Mr. Drapeau as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Mr. Drapeau's termination; (iv) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (v) no other severance. The Company shall be entitled to take, as an offset against any amounts due pursuant to subsections (i) and (ii) above, any amounts received by Mr. Drapeau pursuant to disability or other insurance, or similar sources, provided by the Company.

(e) Termination Due to Death. Mr. Drapeau's employment under this Second Amended Agreement shall be terminated immediately by the Company in the event of Mr. Drapeau's death. In the event of a termination due to Mr. Drapeau's death, Mr. Drapeau's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of death; (ii) severance payments equal to Mr. Drapeau's then current base salary at the same rate and on the same schedule as in effect at the time of death for a period of time equal to the greater of the remainder of the Initial Term of this Agreement (through December 31, 2003) or six (6) months from the date of death; (iii) the immediate vesting of outstanding but unvested stock options held by Mr. Drapeau 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 Mr. Drapeau's death; and (iv) no other severance.

(f) Termination By Mutual Agreement of the Parties. Mr. Drapeau's employment pursuant to this Second Amended 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 Mr. Drapeau to vacate his 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 Second Amended 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 Mr. Drapeau's employment hereunder, then this Second Amended 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 Second Amended 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 Second Amended Agreement there is a Termination Event (as defined below), Mr. Drapeau shall be treated as if he 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 Mr. Drapeau 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 Mr. Drapeau's permanent disability (defined in Section 8(d)), Mr. Drapeau'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 Second Amended Agreement by the Company;

(ii) a failure by the Company to obtain the assumption of this Second Amended 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 Mr. Drapeau 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 Mr. Drapeau under the terms of this Second Amended Agreement or any other agreement or understanding between the Company and Mr. Drapeau, 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 Mr. Drapeau relocate or any assignment to Mr. Drapeau of duties that would make it unreasonably difficult for Mr. Drapeau to maintain the principal residence he had immediately prior to the Change in Control.

10. SURRENDER OF EQUIPMENT, BOOKS AND RECORDS. Mr. Drapeau 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 Mr. Drapeau 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 Mr. Drapeau 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. Mr. Drapeau 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 Mr. Drapeau's employment with the Company.

11. GENERAL RELATIONSHIP. Mr. Drapeau 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 Second Amended 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 Mr. Drapeau or observed by Mr. Drapeau, (iii) the designs, inventions and innovations and related plans, strategies and applications which Mr. Drapeau develops during the term of this Second Amended Agreement in connection with the work performed by Mr. Drapeau 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 Second Amended Agreement or is otherwise a violation of contractual, legal or fiduciary duties owed to the Company, which violation is known to Mr. Drapeau; or (iii) information which, subsequent to disclosure or observation, is obtained by Mr. Drapeau 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 Mr. Drapeau) and who is not required to refrain from disclosing such information to others.

(c) While employed by the Company, Mr. Drapeau will have access to and become familiar with various Trade Secrets and Confidential Information. Mr. Drapeau acknowledges that the Trade Secrets and Confidential Information are owned and shall continue to be owned solely by the Company and/or its affiliates. Mr. Drapeau agrees that he will not, at any time, whether during or subsequent to his 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 Mr. Drapeau is compelled to disclose it by governmental process. In the event Mr. Drapeau believes that he is legally required to disclose any Trade Secrets or Confidential Information, Mr. Drapeau 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 Second Amended Agreement, and shall be binding upon Mr. Drapeau in perpetuity.

13. ASSIGNMENT OF RIGHTS.

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

(c) Mr. Drapeau agrees to disclose in writing to the Board of Directors of the Company any Design, Invention or Innovation relating to the business of the Company and/or its affiliates, which Mr. Drapeau develops, conceives and/or reduces to practice in connection with any work performed by Mr. Drapeau 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. Mr. Drapeau shall disclose all Designs, Inventions and Innovations to the Company, even if Mr. Drapeau does not believe that he is required under this Second Amended Agreement, or pursuant to California Labor Code Section 2870, to assign his interest in such Design, Invention or Innovation to the Company. If the Company and Mr. Drapeau disagree as to whether or not a Design, Invention or Innovation is included within the terms of this Second Amended Agreement, it will be the responsibility of Mr. Drapeau to prove that it is not included.

(d) Pursuant to California Labor Code Section 2870, the obligation to assign as provided in this Second Amended 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 Second Amended Agreement does not apply to any Design, Invention or Innovation that Mr. Drapeau developed entirely on Mr. Drapeau'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 Mr. Drapeau for the Company and/or its affiliates.

(e) Mr. Drapeau agrees that any Design, Invention and/or Innovation which is required under the provisions of this Second Amended 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 Mr. Drapeau, Mr. Drapeau 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 Second Amended Agreement, and shall be binding upon Mr. Drapeau in perpetuity.

14. ASSIGNMENT. This Second Amended Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the successors and assigns of the Company. Mr. Drapeau shall have no right to assign his rights, benefits, duties, obligations or other interests in this Second Amended Agreement, it being understood that this Second Amended Agreement is personal to Mr. Drapeau.

15. ENTIRE UNDERSTANDING. This Second Amended 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 Mr. Drapeau or the Company. This Second Amended Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Second Amended Agreement replaces and supersedes any and all prior understandings or agreements between Mr. Drapeau 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 Mr. Drapeau 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 Mr. Drapeau or the Company may from time to time furnish, in writing, to the other.

17. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) MR. DRAPEAU AND THE COMPANY AGREE THAT ANY DISPUTE, CONTROVERSY OR CLAIM ARISING HEREUNDER OR IN ANY WAY RELATED TO THIS SECOND AMENDED AGREEMENT, ITS INTERPRETATION, ENFORCEABILITY, OR APPLICABILITY, OR RELATING TO MR. DRAPEAU'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) MR. DRAPEAU AND THE COMPANY AGREE THAT THE ARBITRATOR SHALL HAVE THE AUTHORITY TO ISSUE PROVISIONAL RELIEF. MR. DRAPEAU 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 SECOND AMENDED AGREEMENT, AND SHALL BE BINDING UPON THE PARTIES.

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

______ (MR. DRAPEAU) ______ (COMPANY)

18. MISCELLANEOUS.

(a) Headings. The headings of the several sections and paragraphs of this Second Amended 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 Second Amended 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 Second Amended 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 Second Amended Agreement is or are held invalid, the remaining provisions of this Second Amended Agreement shall not be affected thereby.

(e) Advertising Waiver. Mr. Drapeau 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 Mr. Drapeau's name and/or pictures of Mr. Drapeau taken in the course of his provision of services to the Company and/or its affiliates, appear. Mr. Drapeau hereby waives and releases any claim or right he may otherwise have arising out of such use, publication or distribution.

(f) Counterparts. This Second Amended 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 Mr. Drapeau'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 equal to the greater of twenty-four (24) 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 time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (iii) no other severance.

(b) 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 Second Amended Agreement shall be subject to: (i) Mr. Drapeau's continued compliance with the terms and conditions of Sections 7(b), 7(c), 7(e), 12, 13 and 17; and (ii) Mr. Drapeau 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. Subject to the requirements set forth in this Section, Mr. Drapeau shall be eligible for Incentive Payments in the event that Mr. Drapeau is terminated at the Company's convenience pursuant to Sections 8(a) or 9(b), or terminates employment for substantial cause pursuant to Section 8(c). Incentive Payments shall be equal to one-half of Mr. Drapeau's then-current base salary at the rate and on the same payment schedule in effect at the time of termination for a period equal to the greater of twenty-four (24) months from the date of termination or the remainder of any Renewal Term. Incentive Payments shall be conditioned upon Mr. Drapeau 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 Mr. Drapeau chooses to engage in such activities, then the Company shall have no obligation to make Incentive Payments for the period of time during which Mr. Drapeau chooses to do so.

(b) Sole Consideration. Mr. Drapeau and the Company agree and acknowledge that the sole and exclusive consideration for the Incentive Payments is Mr. Drapeau'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 Second Amended 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 Second Amended 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, Mr. Drapeau 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 Mr. Drapeau pursuant to these Sections shall not be treated as damages, but as compensation to which Mr. Drapeau 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 Mr. Drapeau pursuant to Sections 8, 19 and 20 any amounts earned by Mr. Drapeau in other employment after termination of his employment with the Company pursuant to this Second Amended Agreement, or any amounts which might have been earned by Mr. Drapeau in other employment had Mr. Drapeau sought such other employment. The provisions of Sections 8, 19 and 20 shall not limit Mr. Drapeau'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 Mr. Drapeau is entitled pursuant to the terms of such plan.

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

MR. DRAPEAU	COMPANY
	Callaway Golf Company, a Delaware corporation
	By:
------------------------------------	------------------------------------
Ronald A. Drapeau	Steven C. McCracken Senior Executive Vice President, Chief Legal Officer

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Mr. Drapeau's Second Amended Agreement ("Section 6"), the Company agrees to indemnify Mr. Drapeau 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 Mr. Drapeau 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 Second Amended 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 Mr. Drapeau 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), Mr. Drapeau 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 Company's current accounting firm as its 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 Mr. Drapeau 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

Mr. Drapeau 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 Mr. Drapeau 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 Mr. Drapeau 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 Mr. Drapeau, the Accounting Firm shall furnish Mr. Drapeau with a written opinion that failure to disclose, report or pay the Excise Tax on Mr. Drapeau'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 Mr. Drapeau in the absence of clear and indisputable mathematical error. Following receipt of a Gross-Up Payment as provided herein, Mr. Drapeau 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 Mr. Drapeau 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 Mr. Drapeau, in which case the Company shall pay the net balance of the Gross-Up Payment (after deduction of such Excess Tax payment) to Mr. Drapeau.

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 Mr. Drapeau 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 Mr. Drapeau in which case Mr. Drapeau 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 Mr. Drapeau 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 Mr. Drapeau. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be repaid by Mr. Drapeau to the Company within ninety (90) days after written demand to Mr. Drapeau by the Company, provided, however, that Mr. Drapeau 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 Mr. Drapeau to prosecute a claim for a refund of such amount consistent with the principles set forth in Section 5.

5. Mr. Drapeau 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 Mr. Drapeau'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 Mr. Drapeau 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 Mr. Drapeau 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. Mr. Drapeau 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 Mr. Drapeau 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 Mr. Drapeau that it does not intend to contest the Claim. If, prior to expiration of such period, the Company notifies Mr. Drapeau in writing that it desires to contest the Claim, Mr. Drapeau 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 Mr. Drapeau;

(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 Mr. Drapeau 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 Mr. Drapeau 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, Mr. Drapeau shall pay the same and sue for a refund or otherwise contest the Claim in any permissible manner as directed by the Company. Mr. Drapeau 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 Mr. Drapeau to pay the Claim and sue for a refund, the Company shall indemnify and hold Mr. Drapeau 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 Mr. Drapeau 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 Mr. Drapeau 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 Mr. Drapeau receives a refund from a tax authority of all or any portion of an Excise Tax paid by or on behalf of Mr. Drapeau with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, Mr. Drapeau shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). Mr. Drapeau 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 Mr. Drapeau 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 Mr. Drapeau shall not be entitled to any refund and the Company does not notify Mr. Drapeau in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then Mr. Drapeau 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 Mr. Drapeau, 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 Mr. Drapeau.

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 10.54

FIRST AMENDED EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This First Amended Executive Officer Employment Agreement ("First Amended Agreement") is entered into as of June 1, 2002, by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Company"), and STEVEN C. MCCRACKEN ("Employee").

A. The Company and Employee are parties to that certain Executive Officer Employment Agreement entered into as of September 1, 2000 (the "Original Agreement").

B. Pursuant to Section 16 of the Original Agreement, the parties desire to supersede and replace the Original Agreement in the manner set forth herein. The Original Agreement shall no longer be of any force or effect except as restated in this First Amended Agreement. To the extent there is any conflict between the Original Agreement and this First Amended Agreement, this First Amended Agreement shall control and all agreements shall be construed so as to give the maximum force and effect to the provisions of this First Amended 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. The term of this First Amended Agreement shall remain the same as set forth in the Original Agreement, as restated below:

(a) The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this First Amended Agreement for the period commencing September 1, 2000 and terminating December 31, 2003 ("Initial Term").

(b) On December 31, 2003, and on each December 31 thereafter (the "Extension Dates"), the expiration date of this First Amended Agreement shall be automatically extended one year, through December 31 of the following year, so long as (a) this First Amended Agreement is otherwise in full force and effect, (b) Employee is still employed by the Company pursuant to this First Amended Agreement, (c) Employee is not otherwise in breach of this First Amended Agreement, and (d) neither the Company nor Employee has given notice as provided in Section 1(c) of this First Amended 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 First Amended Agreement pursuant to Section 1(b) shall be the final such automatic extension of the expiration date of this First Amended 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 First Amended Agreement pursuant to Section 1(b) exist, then on December 31, 2003, the expiration date of this First Amended Agreement shall be extended pursuant to Section 1(b) from December 31, 2003 to December 31, 2004, with this First Amended Agreement expiring on that date (if not earlier terminated pursuant to its terms) without any further automatic extensions.

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

2. SERVICES.

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

(b) Employee shall be required to comply with all policies and procedures of the Company, as such shall be adopted, modified or otherwise established by the Company from time to time.

(c) The Company and Employee agree that the services being provided by Employee for the Company under the terms of this Agreement are unique and intellectual in character and that 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 $500,000.00 per year.

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

5. EXPENSES AND BENEFITS.

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

(b) 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 First Amended 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.

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 First Amended 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 First Amended 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 First Amended 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 any other benefit provided in this First Amended Agreement.

(b) Termination by the Company for Substantial Cause. Employee's employment under this First Amended 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 First Amended 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 First Amended 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 any other benefit provided in this First Amended Agreement. "Substantial cause" shall mean for purposes of this subsection a material breach of this First Amended Agreement by the Company.

(d) Termination Due to Permanent Disability. Subject to all applicable laws, Employee's employment under this First Amended 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 First Amended 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 twenty-four (24) months from the date of termination; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; (iv) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (v) no other severance. The Company shall be entitled to take, as an offset against any amounts due pursuant to subsections (i) and (ii) above, any amounts received by Employee pursuant to disability or other insurance, or similar sources, provided by the Company.

(e) Termination Due to Death. Employee's employment under this First Amended Agreement shall be terminated immediately by the Company in the event of Employee's death. In the event of a termination due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of death; (ii) severance payments equal to Employee's then current base salary at the same rate and on the same schedule as in effect at the time of death for a period of time equal to the greater of the remainder of the Initial Term of this Agreement (through December 31, 2003) or six (6) months from the date of death; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of the date of death in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's death; and (iv) no other severance.

(f) Termination By Mutual Agreement of the Parties. Employee's employment pursuant to this First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended Agreement by the Company;

(ii) a failure by the Company to obtain the assumption of this First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended Agreement, and shall be binding upon Employee in perpetuity.

13. ASSIGNMENT OF RIGHTS.

(a) As used in this First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended Agreement, and shall be binding upon Employee in perpetuity.

14. ASSIGNMENT. This First Amended 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 First Amended Agreement, it being understood that this First Amended Agreement is personal to Employee.

15. ENTIRE UNDERSTANDING. This First Amended 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 First Amended Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This First Amended 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: Ronald A. Drapeau
Chairman of the Board,
President and Chief Executive Officer

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

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 FIRST AMENDED 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 FIRST AMENDED 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 First Amended 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 First Amended 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 First Amended 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 First Amended Agreement is or are held invalid, the remaining provisions of this First Amended 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 First Amended 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 equal to the greater of twenty-four (24) 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 time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (iii) no other severance.

(b) 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 First Amended 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. Subject to the requirements set forth in this Section, Employee shall be eligible for Incentive Payments in the event that Employee is terminated at the Company's convenience pursuant to Sections 8(a) or 9(b), or terminates employment for substantial cause pursuant to Section 8(c). 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 equal to the greater of twenty-four (24) 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 First Amended 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 First Amended 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 First Amended 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 First Amended Agreement to be executed effective the date first written above.

EMPLOYEE	COMPANY
	Callaway Golf Company, a Delaware corporation
- ------------------------------------ Steven C. McCracken	By: ------------------------------------- Ronald A. Drapeau Chairman of the Board, President and Chief Executive Officer

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Employee's First Amended 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 First Amended 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 Company's current accounting firm as its 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 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 10.55

FIRST AMENDED EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This First Amended Executive Officer Employment Agreement ("First Amended Agreement") is entered into as of June 1, 2002, by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Company"), and BRADLEY J. HOLIDAY ("Employee").

A. The Company and Employee are parties to that certain Executive Officer Employment Agreement entered into as of July 13, 2000 (the "Original Agreement").

B. Pursuant to Section 16 of the Original Agreement, the parties desire to supersede and replace the Original Agreement in the manner set forth herein. The Original Agreement shall no longer be of any force or effect except as restated in this First Amended Agreement. To the extent there is any conflict between the Original Agreement and this First Amended Agreement, this First Amended Agreement shall control and all agreements shall be construed so as to give the maximum force and effect to the provisions of this First Amended 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 First Amended Agreement for the period commencing August 15, 2000 and terminating December 31, 2002.

(b) On December 31, 2002, and on each December 31 thereafter (the "Extension Dates"), the expiration date of this First Amended Agreement shall be automatically extended one year, through December 31 of the following year, so long as (a) this First Amended Agreement is otherwise in full force and effect, (b) Employee is still employed by the Company pursuant to this First Amended Agreement, (c) Employee is not otherwise in breach of this First Amended Agreement, and (d) neither the Company nor Employee has given notice as provided in Section 1(c) of this First Amended 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 First Amended Agreement pursuant to Section 1(b) shall be the final such automatic extension of the expiration date of this First Amended Agreement. Thus, if either Employee or the Company gives Notice on or before December 31, 2002, and all other conditions for automatic extension of the expiration date of this First Amended Agreement pursuant to Section 1(b) exist, then on December 31, 2002, the expiration date of this First Amended Agreement shall be extended pursuant to Section 1(b) from December 31, 2002 to December 31, 2003, with this First Amended Agreement expiring on that date (if not earlier terminated pursuant to its terms) without any further automatic extensions.

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

2. SERVICES.

(a) Employee shall serve as Executive Vice President & Chief Financial Officer 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 $400,000.00 per year.

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

5. EXPENSES AND BENEFITS.

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

(b) 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 First Amended 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.

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 First Amended 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 First Amended 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 First Amended 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 any other benefit provided in this First Amended Agreement.

(b) Termination by the Company for Substantial Cause. Employee's employment under this First Amended 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 First Amended 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 First Amended 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 any other benefit provided in this First Amended Agreement. "Substantial cause" shall mean for purposes of this subsection a material breach of this First Amended Agreement by the Company.

(d) Termination Due to Permanent Disability. Subject to all applicable laws, Employee's employment under this First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended Agreement by the Company;

(ii) a failure by the Company to obtain the assumption of this First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended Agreement, and shall be binding upon Employee in perpetuity.

13. ASSIGNMENT OF RIGHTS.

(a) As used in this First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended Agreement, and shall be binding upon Employee in perpetuity.

14. ASSIGNMENT. This First Amended 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 First Amended Agreement, it being understood that this First Amended Agreement is personal to Employee.

15. ENTIRE UNDERSTANDING. This First Amended 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 First Amended Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This First Amended 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 FIRST AMENDED 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 FIRST AMENDED 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 First Amended 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 First Amended 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 First Amended 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 First Amended Agreement is or are held invalid, the remaining provisions of this First Amended 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 First Amended 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 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 First Amended 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. Subject to the requirements set forth in this Section, Employee shall be eligible for Incentive Payments in the event that Employee is terminated at the Company's convenience pursuant to Sections 8(a) or 9(b), or terminates employment for substantial cause pursuant to Section 8(c). 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 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 First Amended

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 First Amended 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 First Amended 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 First Amended Agreement to be executed effective the date first written above.

EMPLOYEE

- -----------------------------------
Bradley J. Holiday

COMPANY

Callaway Golf Company,
a Delaware corporation

By:

Ronald A. Drapeau
Chairman of the Board, President and
Chief Executive Officer

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Employee's First Amended 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 First Amended 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 Company's current accounting firm as its 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 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 10.56

FIRST AMENDED EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This First Amended Executive Officer Employment Agreement ("First Amended Agreement") is entered into as of June 1, 2002, by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Company"), and ROBERT A. PENICKA ("Employee").

A. The Company and Employee are parties to that certain Executive Officer Employment Agreement entered into as of June 1, 2001 (the "Original Agreement").

B. Pursuant to Section 16 of the Original Agreement, the parties desire to supersede and replace the Original Agreement in the manner set forth herein. The Original Agreement shall no longer be of any force or effect except as restated in this First Amended Agreement. To the extent there is any conflict between the Original Agreement and this First Amended Agreement, this First Amended Agreement shall control and all agreements shall be construed so as to give the maximum force and effect to the provisions of this First Amended 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. The term of this First Amended Agreement shall remain the same as set forth in the Original Agreement, as restated below:

(a) The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this First Amended Agreement for the period commencing June 1, 2001 and terminating December 31, 2002.

(b) On December 31, 2002, and on each December 31 thereafter (the "Extension Dates"), the expiration date of this First Amended Agreement shall be automatically extended one year, through December 31 of the following year, so long as (a) this First Amended Agreement is otherwise in full force and effect, (b) Employee is still employed by the Company pursuant to this First Amended Agreement, (c) Employee is not otherwise in breach of this First Amended Agreement, and (d) neither the Company nor Employee has given notice as provided in Section 1(c) of this First Amended 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 First Amended Agreement pursuant to Section 1(b) shall be the final such automatic extension of the expiration date of this First Amended Agreement. Thus, if either Employee or the Company gives Notice on or before December 31, 2002, and all other conditions for automatic extension of the expiration date of this First Amended Agreement pursuant to Section 1(b) exist, then on December 31, 2002, the expiration date of this First Amended Agreement shall be extended pursuant to Section 1(b) from December 31, 2002 to December 31, 2003, with this First Amended Agreement expiring on that date (if not earlier terminated pursuant to its terms) without any further automatic extensions.

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

2. SERVICES.

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

(b) Employee shall be required to comply with all policies and procedures of the Company, as such shall be adopted, modified or otherwise established by the Company from time to time.

(c) The Company and Employee agree that the services being provided by Employee for the Company under the terms of this Agreement are unique and intellectual in character and that 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 $400,000.00 per year.

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

5. EXPENSES AND BENEFITS.

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

(b) 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 First Amended 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.

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 First Amended 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 First Amended 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 First Amended 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 any other benefit provided in this First Amended Agreement.

(b) Termination by the Company for Substantial Cause. Employee's employment under this First Amended 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 First Amended 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 First Amended 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 any other benefit provided in this First Amended Agreement. "Substantial cause" shall mean for purposes of this subsection a material breach of this First Amended Agreement by the Company.

(d) Termination Due to Permanent Disability. Subject to all applicable laws, Employee's employment under this First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 two (2) 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 First Amended 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 First Amended 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 First Amended Agreement by the Company;

(ii) a failure by the Company to obtain the assumption of this First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended Agreement, and shall be binding upon Employee in perpetuity.

13. ASSIGNMENT OF RIGHTS.

(a) As used in this First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended 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 First Amended Agreement, and shall be binding upon Employee in perpetuity.

14. ASSIGNMENT. This First Amended 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 First Amended Agreement, it being understood that this First Amended Agreement is personal to Employee.

15. ENTIRE UNDERSTANDING. This First Amended 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 First Amended Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This First Amended 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 FIRST AMENDED 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 FIRST AMENDED 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 First Amended 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 First Amended 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 First Amended 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 First Amended Agreement is or are held invalid, the remaining provisions of this First Amended 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 First Amended 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 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 First Amended 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. Subject to the requirements set forth in this Section, Employee shall be eligible for Incentive Payments in the event that Employee is terminated at the Company's convenience pursuant to Sections 8(a) or 9(b), or terminates employment for substantial cause pursuant to Section 8(c). 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 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 First Amended

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 First Amended 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 First Amended 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 First Amended Agreement to be executed effective the date first written above.

EMPLOYEE	COMPANY
	Callaway Golf Company, a Delaware corporation
- -----------------------------------	By: -------------------------------------
Robert A. Penicka	Ronald A. Drapeau Chairman of the Board, President and Chief Executive Officer

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Employee's First Amended 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 First Amended 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 Company's current accounting firm as its 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 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 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 Quarterly Report of the Company on Form 10-Q for the quarter ended June 30, 2002, as filed with the Securities and Exchange Commission (the "10-Q Report") that:

(1) the 10-Q Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the 10-Q Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The undersigned have executed this Certification effective as of August 12, 2002.

/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