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

FORM 10-K

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

For the fiscal year ended December 31, 2005

Commission file number 1-10962

Callaway Golf Company
(Exact name of registrant as specified in its charter)

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

2180 Rutherford Road
Carlsbad, CA 92008
(760) 931-1771
(Address, including zip code, and telephone number, including area code, of principal executive offices)

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

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

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

As of June 30, 2005, the aggregate market value of the Registrant's Common Stock held by nonaffiliates of the Registrant was $1,083,613,118 based on the closing sales price of the Registrant's Common Stock as reported on the New York Stock Exchange. Such amount was calculated by excluding all shares held by directors and executive officers and the Company's grantor stock trust without conceding that any of the excluded parties are "affiliates" of the Registrant for purposes of the federal securities laws.

As of January 31, 2006, the number of shares of the Registrant's Common Stock outstanding was 76,399,483, and there were no shares of the Registrant's Preferred Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the Registrant's Definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the Registrant's 2006 Annual Meeting of Shareholders, which is scheduled to be held on June 6, 2006. Such Definitive Proxy Statement will be filed with the Commission not later than 120 days after the conclusion of the Registrant's fiscal year ended December 31, 2005.

Important Notice to Investors: *Statements made in this report that relate to future plans, events, liquidity, financial results or performance including statements relating to future cash flows and liquidity, as well as estimated integration and restructuring benefits, savings and charges, projected capital expenditures, and future contractual obligations, are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are based upon current information and expectations. Actual results may differ materially from those anticipated as a result of certain risks and uncertainties, including delays, difficulties, changed strategies, or unanticipated factors affecting the implementation of the restructuring initiatives, as well as the general risks and uncertainties applicable to the Company and its business. For details concerning these and other risks and uncertainties, see Part I, Item IA, "Risk Factors" contained in this report, as well as the Company's other reports on Forms 10-K, 10-Q and 8-K subsequently filed with the Securities and Exchange Commission from time to time. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Investors should also be aware that while the Company from time to time does communicate with securities analysts, it is against the Company's policy to disclose to them any material non-public information or other confidential commercial information. Furthermore, the Company has a policy against distributing or confirming financial forecasts or projections issued by analysts and any reports issued by such analysts are not the responsibility of the Company. Investors should not assume that the Company agrees with any report issued by any analyst or with any statements, projections, forecasts or opinions contained in any such report.*

Callaway Golf Company Trademarks: *The following marks and phrases, among others, are trademarks of Callaway Golf Company: A Passion For Excellence—Apex—Baby Ben—Ben Hogan—BH—BH-5—Big Ben—Big Bertha—C455—CB1—CS-3—CTU 30—Callaway—Callaway Golf—Carnoustie—Chev—Chevron Device—Complete—Demonstrably Superior and Pleasingly Different—Deuce—DFX—Distance Yourself—Divine Nine—Dual Force—Edge CFT—Ely Would—ERC—Explosive Distance.Amazing Soft Feel—Flying Lady—FT-3—FTX—Fusion—Game Enjoyment System—Game Series—Gems—GES—Ginty—Great Big Bertha—Hawk Eye—Heavenwood—Hogan—Hybrid 45—HX—I-Trax—Legacy—Legend—Little Ben—Little Bertha—Long & Soft—Molitor—Number One Putter in Golf—Odyssey—ORG.14—Pencil—RCH—Rain Series—Riviera—Rossie—Rule 35—S2H2—SRT—SenSert—Speed Slot—Solitaire—Steelhead—Strata—Stronomic—Sure-Out—Switch … Lower Your Scores—T design—Tech Series—The Hawk—The Longest Balls—The Most Played Name in Golf—TL Tour—Top-Flite—Top Flite Quartz—Top-Flite XL—Tour Authentic—Tour Blue—Tour Deep—Trade In! Trade Up!—TriBall—TriForce—TriHot—Trilateral—Tru Bore—Tunite—VFT—War Bird—Warbird—Where They Don't Play Golf, They Don't Play Top-Flite—White Hot—White Steel—World's Friendliest—X-12—X-14—X-16—X-18—X460—XL 3000—XL Extreme—X-Series—X-Sole—X-SPANN—Xtra Traction Technology—X-Tour—XTT—XWT*

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CALLAWAY GOLF COMPANY

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PART I.

PART I

Item 1. *Business*

Callaway Golf Company (the "Company" or "Callaway Golf") was incorporated in California in 1982 and reincorporated in Delaware on July 1, 1999. In 1997, the Company acquired substantially all of the assets of Odyssey Sports, Inc., which manufactured and marketed the Odyssey brand of putters and wedges. In 1998, the Company began a reorganization of its international operations by acquiring the distribution rights in certain key international markets. As a result, during 1998 through 2001, the Company acquired distribution rights and substantially all of the assets from its distributors in Japan, France, Belgium, Norway, Denmark, Germany, Japan, Ireland, Spain, Canada, Korea and Australia. In 2000, the Company entered the golf ball business with the release of its first golf ball product. In 2003, the Company acquired through a court-approved sale substantially all of the golf-related assets of the TFGC Estate Inc. (f/k/a The Top-Flite Golf Company, f/k/a Spalding Sports Worldwide, Inc.), which included golf ball manufacturing facilities, the Top-Flite and Ben Hogan brands, and all golf-related patents and trademarks (the "Top-Flite Acquisition"). Beginning in 2001, the Company and its participating retailers partnered with FrogTrader, Inc. to develop the Trade In! Trade Up! program. In 2004, the Company acquired all of the issued and outstanding shares of stock of FrogTrader (which subsequently changed its name to Callaway Golf Interactive, Inc.). The Company acquired FrogTrader to stimulate purchases of new clubs by growing its Trade In! Trade Up! program and to enable the Company to better manage the distribution of pre-owned golf clubs and the Callaway Golf brand. The Company currently has the following wholly-owned operating subsidiaries: Callaway Golf Sales Company, The Top-Flite Golf Company, Callaway Golf Interactive, Inc., Callaway Golf Europe Ltd., Callaway Golf K.K., Callaway Golf Korea Ltd., Callaway Golf Canada Ltd. and Callaway Golf South Pacific PTY Ltd.

The Company, together with its subsidiaries, designs, manufactures and sells high quality golf clubs (drivers, fairway woods, hybrids, irons, wedges and putters) and golf balls. The Company also sells golf accessories such as footwear, golf bags, golf gloves, golf headwear, golf towels and golf umbrellas. The Company generally sells its products to golf retailers (including pro shops at golf courses as well as off-course retailers), sporting goods retailers and mass merchants, directly and through its wholly-owned subsidiaries, and to third party distributors. The Company also sells pre-owned golf products through its website, www.callawaygolfpreowned.com. The Company's products are sold in the United States and in over 100 countries around the world. The Company's products are designed for the enjoyment of both amateur and professional golfers. Golfers generally purchase the Company's products on the basis of performance, ease of use and appearance. In addition, the Company licenses its trademarks and service marks in exchange for a royalty fee to third parties for use on products such as golf apparel, footwear, watches, travel gear and eyewear. The Company's business is seasonal and as a result approximately two-thirds of its sales occur during the first half of its fiscal year (see below "Certain Factors Affecting Callaway Golf Company—Seasonality and Adverse Weather Conditions" contained in Item 1A).

Financial Information about Segments and Geographic Areas

Information regarding the Company's segments and geographic areas in which the Company operates is contained in Note 14 to the Company's Consolidated Financial Statements for the years ended December 31, 2005, 2004 and 2003 ("Consolidated Financial Statements"), which note is incorporated herein by this reference and is included as part of Item 8. "Financial Statements and Supplementary Data."

Products

The Company designs, manufactures and sells high quality golf clubs and golf balls and also sells golf footwear and accessories. The Company designs its products to be technologically-advanced and in this regard invests a considerable amount in research and development each year. The Company's products are designed for golfers of all skill levels, both amateur and professional.

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

	Year Ended December 31,					
	2005		2004		2003	
			(In millions)			
Drivers and fairway woods	$241.3	24%	$238.6	25%	$252.4	31%
Irons*	316.5	32%	259.1	28%	280.7	34%
Putters	109.3	11%	100.5	11%	142.8	18%
Golf balls	214.7	22%	231.3	25%	78.4	10%
Accessories and other*	116.3	12%	105.1	11%	59.7	7%
Net sales	$998.1	100%	$934.6	100%	$814.0	100%

* Beginning with the year ended December 31, 2004, the Company includes wedge sales within the iron sales product category. Previously, wedge sales were included as a component of the accessories and other category. Prior periods have been reclassified to conform with the current basis of presentation.

For a discussion regarding the changes in net sales for each product group from 2005 to 2004 and from 2004 to 2003, see below, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations" contained in Item 7.

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

Drivers and Fairway Woods. This product category includes sales of the Company's drivers, fairway woods and hybrid products, which are sold under the Callaway Golf, Ben Hogan and Top-Flite brands. These products are generally made of metal (either titanium or steel) or a combination of metal and a composite material. The Company's products compete at all price segments in the drivers and fairway woods category. In general, composite/metal drivers and fairway woods sell at higher price points than titanium drivers and fairway woods, and titanium products sell at higher price points than steel products. The Company's drivers, fairway woods and hybrid products are available in a variety of lofts, shafts and other specifications to accommodate the preferences and skill levels of all golfers. All of the Company's current drivers, fairway woods and hybrid products conform to the current rules of the United States Golf Association (the "USGA") or the Royal and Ancient Golf Club of St. Andrews (the "R&A"), as applicable to the markets in which the products are intended to be sold.

Irons. This product category includes sales of the Company's irons and wedges, which are sold under the Callaway Golf, Ben Hogan and Top-Flite brands. The Company's irons are generally made of metal (either titanium or steel) or a combination of metal and a composite material. The Company's products compete at all price segments in the irons category. In general, the Company's composite/metal irons and titanium irons sell at higher price points than its steel irons. The Company's irons are available in a variety of lofts, shafts and other specifications to accommodate the preferences and skill levels of all golfers. All of the Company's current iron products conform to the current rules of the USGA and the R&A.

Putters. This product category includes sales of the Company's putters, which are sold under the Odyssey, Callaway Golf, Ben Hogan and Top-Flite brands. The Company's products compete at all price segments in the putters category. The Company's putters are available in a variety of styles, shafts and other specifications to accommodate the preferences and skill levels of all golfers. All of the Company's current putter products conform to the current rules of the USGA and the R&A.

Golf Balls. This product category includes sales of the Company's golf balls, which are sold under the Callaway Golf, Ben Hogan and Top-Flite brands. The Company's golf balls are generally either a 2-piece golf ball (consisting of a core and cover) or a multi-layer golf ball (consisting of two or more components in addition to the cover). The Company's golf ball products include covers that incorporate a traditional dimple pattern as well as covers that incorporate the Company's unique HEX Aerodynamics (i.e., a series of hexagons and pentagons separated by tubular ridges). The Company's products compete at all price segments in the golf ball category. In general, the Company's multi-layer golf balls sell at higher price points than its 2-piece golf balls. All of the Company's current golf ball products conform to the current rules of the USGA and the R&A.

Accessories and Other. This product category includes sales of golf bags, golf gloves, golf headwear, golf towels and golf umbrellas as well as sales of pre-owned products through Callaway Golf Interactive, Inc., which was acquired in May 2004. Additionally, this product category includes royalties from licensing of the Company's trademarks and service marks on products such as golf apparel, footwear, watches, travel gear and eyewear.

Product Design and Development

Product design at the Company is a result of the integrated efforts of its product management, research and development, manufacturing and sales departments, all of which work together to generate new ideas for golf equipment. The Company has not limited itself in its research efforts by trying to duplicate designs that are traditional or conventional and believes it has created a work environment in which new ideas are valued and explored. In 2005, 2004 and 2003, the Company invested $27.0, $30.6 million and $29.5 million, respectively, in research and development. The Company intends to continue to invest substantial amounts in its research and development activities in connection with its development of new golf club and golf ball products.

The Company has the ability to create and modify product designs by using computer aided design ("CAD") software, computer aided manufacturing ("CAM") software and computer numerical control milling equipment. CAD software enables designers to develop computer models of new product designs. CAM software is then used by engineers to translate the digital output from CAD computer models so that physical prototypes can be produced. Further, the Company utilizes a variety of testing equipment and computer software, including a golf robot, launch monitors, a proprietary virtual test center, a proprietary performance analysis system, an indoor test range and other destructive and non-destructive methods to develop and test its products. Through the use of this technology, the Company has been able to accelerate the design, development and testing of new golf clubs and golf balls.

For certain risks associated with product design and development, see below, "Certain Factors Affecting Callaway Golf Company—Market Acceptance of Products" and "—New Product Introduction and Product Cyclicality" contained in Item 1A.

Manufacturing

Golf Clubs

The Company's drivers, fairway woods, hybrids, irons, putters and wedges are assembled primarily at the Company's facilities in Carlsbad, California. A smaller portion of these products are assembled outside of the United States. The Company's products are assembled using components obtained from suppliers both within the United States and internationally. The golf club assembly process is very labor intensive.

Golf Balls

Prior to the Top-Flite Acquisition, Callaway Golf manufactured golf balls in its Carlsbad, California facility and Top-Flite manufactured golf balls primarily in its Chicopee, Massachusetts and Gloversville, New York facilities. In October 2005, following the Top-Flite Acquisition, the Company completed its full consolidation of all golf ball manufacturing at the Chicopee and Gloversville facilities. The consolidation allowed the Company to eliminate positions and eliminate redundant infrastructure and overhead while improving functionality. The golf ball manufacturing process is much more automated than the golf club assembly process, although a significant amount of labor is still used in the golf ball manufacturing process.

For certain risks associated with golf club and golf ball manufacturing, see below, "Certain Factors Affecting Callaway Golf Company—Manufacturing Capacity" and "—Dependence on Certain Suppliers and Materials" contained in Item 1A.

Sales and Marketing

Sales in the United States

Approximately 56%, 58% and 55% of the Company's net sales were derived from sales for distribution within the United States in 2005, 2004 and 2003, respectively. The Company primarily sells to both on- and off-course golf retailers and sporting goods retailers who sell quality golf products and provide a level of customer service appropriate for the sale of such products. The Company also sells to mass merchants, primarily with regard to its Top-Flite branded products. On a consolidated basis, no one customer that distributes golf clubs or golf balls in the United States accounted for more than 4% of the Company's revenues in 2005, 2004 or 2003. On a segment basis, the golf ball customer base is much more concentrated than the golf club customer base. In 2005, the top five golf ball customers accounted for approximately 24% of the total golf ball sales. A loss of one or more of these customers could have a significant adverse effect upon the Company's golf ball sales.

During 2005, the Company completed the consolidation of the Callaway Golf, Top-Flite, Ben Hogan and Odyssey selling functions. Sales of the Company's products in the United States are made and supported by full-time regional field representatives and in-house sales and customer service representatives who are employees of the Company.

Each geographic territory is covered by both a field representative and a dedicated in-house sales representative who work together to initiate and maintain relationships with customers through frequent telephone calls and in-person visits. The Company believes that this tandem approach of utilizing field representatives and dedicated in-house sales representatives provides the Company a competitive advantage. In addition to these sales representatives, the Company also has dedicated in-house customer service representatives.

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

The Company also has a separate team of manufacturing and club fitting specialists who focus on the Company's custom club sales. Custom club sales are generated primarily from the utilization of the Company's club fitting programs such as performance centers, fitting carts, and a vehicle with club building capacity. Club fittings are performed by golf professionals who are specifically trained to fit golfers of all abilities into custom-fitted clubs using the Company's proprietary club fitting software. The Company believes that offering golfers the opportunity to increase performance with custom club specifications increases sales and promotes brand loyalty.

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

Sales Outside of the United States

Approximately 44%, 42% and 45% of the Company's net sales were derived from sales for distribution outside of the United States in 2005, 2004 and 2003, respectively. The Company does business (either directly or through its subsidiaries and distributors) in more than 100 countries around the world. The Company's management believes that controlling the distribution of its products in certain major markets in the world has been and will continue to be an important element in the future growth and success of the Company.

The majority of the Company's international sales are made through its wholly-owned subsidiaries located in Europe, Japan, Canada, Korea and Australia. In addition to sales through its subsidiaries, the Company also sells through distributors in over 60 foreign countries, including Singapore, Hong Kong, Taiwan, China, the Philippines, India, South Africa and various countries in South America. Prices of golf clubs and balls for sales by distributors outside of the United States generally reflect an export pricing discount to compensate international distributors for selling and distribution costs. A change in the Company's relationship with significant distributors could negatively impact the volume of the Company's international sales.

The Company's sales programs in foreign countries are specifically designed based upon local laws and competitive conditions. Some of the sales programs utilized include the custom club fitting experiences and the Preferred Retailer Program or variations of those programs employed in the United States as described above.

Conducting business outside of the United States subjects the Company to increased risks inherent in international business. See below, "Certain Factors Affecting Callaway Golf Company—Foreign Currency Risk" and "—International Risks" contained in Item 1A.

Sales of Pre-Owned Golf Clubs

The Company sells certified, pre-owned Callaway Golf products through its website, www.callawaygolfpreowned.com. The Company generally acquires the pre-owned products through the Company's Trade In! Trade Up! program. The website for this program is www.tradeintradeup.com. The Trade In! Trade Up! program gives golfers the opportunity to trade in their used Callaway Golf clubs and select competitor golf clubs at authorized Callaway Golf retailers or through the Callaway Golf Pre-Owned website for credit toward the purchase of new or pre-owned Callaway Golf equipment.

Advertising and Promotion

Within the United States, the Company has focused its advertising efforts mainly on a combination of printed advertisements in national magazines, such as *Golf Magazine*, *Golf World* and *Golf Digest,* and television commercials, primarily on The Golf Channel and on network television during golf telecasts. Advertising of the Company's products outside of the United States is generally handled by the Company's subsidiaries and is consistent with U.S. direction.

In addition, the Company establishes relationships with professional golfers and celebrities from other industries in order to promote the Company's products. The Company has entered into endorsement arrangements with members of the various professional golf tours to promote the Company's golf club and golf ball products. For certain risks associated with such endorsements, see below, "Certain Factors Affecting Callaway Golf Company—Golf Professional Endorsements" contained in Item 1A.

Competition

The golf club markets in which the Company competes are highly competitive, and are served by a number of well-established and well-financed companies with recognized brand names, as well as new companies with popular products. With respect to drivers, fairway woods and irons, the Company's major competitors are TaylorMade, Titleist, Cobra, Cleveland, Ping, Mizuno and Nike. For putters, the Company's major competitors are Ping, Titleist and TaylorMade. In addition, the Company also competes with Dunlop, Bridgestone and PRGR among others in Japan and throughout Asia. The Company believes that it is the leader, or one of the leaders, in every golf club market in which it competes.

The golf ball business is also highly competitive. There are a number of well-established and well-financed competitors, including Acushnet (Titleist and Pinnacle), Sumitomo Rubber Industries (Dunlop and Srixon), Bridgestone (Bridgestone and Precept), Nike, TaylorMade (MaxFli) and others. These competitors have established market share in the golf ball business, with Acushnet having a market share of over 50% of the golf ball business in the United States. The Company's golf ball products have been well received by both professional and amateur golfers alike. The Company's golf ball products continue to receive a significant degree of usage on the major professional golf tours and maintained the number two position on the PGA tour in 2005. In addition, the Company's golf ball products remained number two in U.S. dollar market share in 2005.

For both golf clubs and golf balls, the Company generally competes on the basis of technology, quality, performance, customer service and price. In order to gauge the effectiveness of the Company's response to such factors, its management receives and evaluates Company-generated market research for U.S. and foreign markets, as well as periodic public, as well as customized, market research for U.S. markets from *Golf Datatech*. For risks relating to competition, see below, "Certain Factors Affecting Callaway Golf Company—Competition" contained in Item 1A.

Environmental Matters

The Company's operations are subject to federal, state and local environmental laws and regulations that impose limitations on the discharge of pollutants into the environment and establish standards for the handling, generation, emission, release, discharge, treatment, storage and disposal of certain materials, substances and wastes and the remediation of environmental contaminants ("Environmental Laws"). In the ordinary course of its manufacturing processes, the Company uses paints, chemical solvents and other materials, and generates waste by-products, that are subject to these Environmental Laws. In addition, in connection with the Top-Flite Acquisition, the Company assumed certain monitoring and remediation obligations at the Top-Flite facilities in Chicopee, Massachusetts and Gloversville, New York.

The Company adheres to all applicable Environmental Laws and takes action as necessary to comply with these laws. The Company maintains an environmental and safety program and employs two full-time environmental engineers at its Carlsbad, California facility to manage the program. The environmental and safety program includes obtaining environmental permits as required, capturing and appropriately disposing of any waste by-products, tracking hazardous waste generation and disposal, air emissions, safety situations, material safety data sheet management, storm water management and recycling, and auditing and reporting on its compliance.

In addition, The Top-Flite Golf Company is a charter member in the U.S. Environmental Protection Agency's National Performance Track program. This program recognizes facilities that have demonstrated a commitment to superior environmental performance and have a good record of compliance with environmental regulations. The National Environmental Performance Track was developed by the Environmental Protection Agency to reward companies who do more than environmental regulations require.

Historically, the costs of environmental compliance have not had a material adverse effect upon the Company's business. Furthermore, the Company does not believe that the monitoring and remedial obligations it assumed in connection with the Top-Flite Acquisition will have a material adverse effect upon the Company's business. The Company believes that its operations are in substantial compliance with all applicable Environmental Laws.

Intellectual Property

The Company is the owner of over 2,500 U.S. and foreign trademark registrations and over 1,700 U.S. and foreign patents relating to the Company's products, product designs, manufacturing processes and research and development concepts. Other patent and trademark applications are pending and await registration. In addition, the Company owns various other protectable rights under copyright, trade dress and other statutory and common laws. The Company's intellectual property rights are very important to the Company and the Company seeks to protect such rights through the registration of trademarks and utility and design patents, the maintenance of trade secrets and the creation of trade dress. When necessary and appropriate, the Company enforces its rights through litigation.

In the United States, the Company's patents are generally in effect for up to 20 years from the date of the filing of the patent application. The Company's trademarks are generally valid as long as they are in use and their registrations are properly maintained and have not been found to become generic. See below, "Certain Factors Affecting Callaway Golf Company—Intellectual Property and Proprietary Rights" contained in Item 1A.

Licensing

The Company from time to time licenses its trademarks and service marks to third parties for use on products such as golf apparel, footwear, watches, travel gear and eyewear. The Company has a current licensing arrangement with Ashworth, Inc. for a complete line of Callaway Golf men's and women's apparel for distribution in the United States, Canada, Europe, Australia, New Zealand and South Africa. The Company also has a current licensing arrangement with Sanei International Co., Ltd. ("Sanei") for a complete line of Callaway Golf men's and women's apparel for distribution in Japan, Korea, China and other Asian Pacific countries.

In addition to apparel, the Company has also entered into licensing arrangements with (i) Tour Golf Group, Inc. for a Callaway Golf footwear collection, (ii) Fossil, Inc. for a line of Callaway Golf watches and clocks, (iii) TRG Accessories, LLC for a collection primarily consisting of travel gear, (iv) Global Wireless Entertainment, Inc. for the creation of golf-related software and applications for wireless handheld devices and platforms and (v) MicroVision Optical, Inc. for eyewear. As part of the Top-Flite Acquisition, the Company assumed certain license agreements with third parties to license, among other things, the use of its Top-Flite and Ben Hogan marks on apparel and accessories.

Employees

As of December 31, 2005, the Company and its subsidiaries had approximately 3,000 full-time employees. In addition, the Company employs part-time employees and temporary employees as the business of the Company requires. During 2005, the Company converted some of the temporary positions to full-time positions. Also during 2005, the Company announced the elimination of approximately 500 positions worldwide, including full-time and part-time employees, temporary employees and open positions. Most of these positions were eliminated prior to December 31, 2005 and the remainder of the planned eliminations are expected to be completed during 2006.

Historically, Callaway Golf employees have not been represented by unions. The Top-Flite manufacturing employees in Chicopee, Massachusetts, however, are unionized. Shortly after the Top-Flite Acquisition was consummated the Company negotiated a new collective bargaining agreement with the union in Chicopee which is not scheduled to expire until September 30, 2008. In addition, the Company's production employees in Canada and Australia are also unionized. The Company considers its employee relations to be good.

Access to SEC Filings through Company Website

Interested readers can access the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") through the Investor Relations section of the Company's website at www.callawaygolf.com. These reports can be accessed free of charge from the Company's website as soon as reasonably practicable after the Company electronically files such materials with, or furnishes them to, the Securities and Exchange Commission. In addition, the Company's Corporate Governance Guidelines, Code of Conduct and the written charters of the committees of the Board of Directors are available in the Corporate Governance portion of the Investor Relations section of the Company's website and are available in print to any shareholder who requests a copy. The information contained on the Company's website shall not be deemed to be incorporated into this report.

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Item 1A. *Risk Factors*

Certain Factors Affecting Callaway Golf Company

The financial statements contained in this report and the related discussions describe and analyze the Company’s financial performance and condition for the periods presented. For the most part, this information is historical. The Company’s prior results, however, are not necessarily indicative of the Company’s future performance or financial condition. The Company has also included certain forward-looking statements concerning the Company’s future performance or financial condition. These forward-looking statements are based upon current information and expectations and actual results could differ materially. The Company therefore has included the following discussion of certain factors that 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.

Market Acceptance of Products

A golf equipment 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 golf ball purchasers are difficult to predict and may be subject to rapid and unanticipated changes. In addition, the Company’s products have tended to incorporate significant innovations in design and manufacture, which have often, but not always, 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 premium prices for golf equipment or that the Company will be able to design and manufacture products that achieve market acceptance. In general, there can be no assurance as to whether or how long the Company’s golf clubs and golf balls will achieve and maintain market acceptance, and therefore, there can be 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 have been 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 has resulted in closeouts of existing inventories at both the wholesale and retail levels. Such closeouts have resulted 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, but not always, have a product life cycle of up to 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 occurs sooner in the product cycle and is more significant. The Company’s fusion woods generally sell at higher price points than its titanium metal woods, and its titanium metal woods generally sell at higher price points than its steel metal woods. Historically, the Company’s woods products generally have achieved better gross margins than its other products. However, price compression in the woods market has made this differential less, and at times gross margins on woods may be less than other products. 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.

Manufacturing Capacity

The Company plans its manufacturing capacity based upon the forecasted demand for its products. The nature of the Company's business makes it difficult to quickly adjust its manufacturing capacity if actual demand for its products exceeds or is less than forecasted demand. If actual demand for its products exceeds the forecasted demand, the Company may not be able to produce sufficient quantities of new products in time to fulfil actual demand, which could limit the Company's sales and adversely affect its financial performance. On the other hand, if actual demand is less than the forecasted demand for its products, 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.

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 (because of financial difficulties or otherwise) are unable or fail to provide suitable components. However, there could be a significant production delay or disruption caused by the inability of current suppliers to deliver or the transition to other suppliers, which in turn could have a material adverse impact on the Company's results of operations. The Company is also single-sourced or dependent on a limited number of suppliers for the materials it uses to make its golf balls. Many of the materials are customized for the Company. Any delay or interruption in such supplies could have a material adverse impact upon the Company's golf ball business. If the Company did experience any such delays or interruptions, there is no assurance that the Company would be able to find adequate alternative suppliers at a reasonable cost or without significant disruption to its business.

The Company's size has made it a large consumer of certain materials, including steel, titanium alloys, carbon fiber and rubber. 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 at a reasonable price. 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.

The Company's golf club and golf ball manufacturing facilities use, among other resources, significant quantities of electricity to operate. An interruption in the supply of electricity or a significant increase in the cost of electricity could have a significant adverse effect upon the Company's results of operations.

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

Competition

Golf Clubs. The golf club business is highly competitive, and is served by a number of well-established and well-financed companies with recognized brand names. New product introductions, price reductions, consignment sales, extended payment terms, "closeouts" (including closeouts of products that were recently commercially successful) and increased tour and advertising spending by competitors continue to generate increased market competition. Furthermore, continued price compression in the club industry for new clubs could have a significant adverse affect on the Company's pre-owned club business as the gap between the cost of a new club and a pre-owned club lessens. There can be no assurance that successful marketing activities, discounted pricing, consignment sales, extended payment terms or new product introductions by competitors will not negatively impact the Company's future sales.

Golf Balls. The golf ball business is also highly competitive. There are a number of well-established and well-financed competitors, including one competitor with an estimated U.S. market share of approximately 50%. As competition in this business increases, many of these competitors are increasing advertising, tour or other promotional support. This increased competition has resulted in significant expenses for the Company in both tour and advertising support and product development. Unless there is a change in competitive conditions, these competitive pressures and increased costs will continue to adversely affect the profitability of the Company's golf ball business.

On a consolidated basis, no one customer that distributes the Company's golf clubs or golf balls in the United States accounted for more than 4% of the Company's revenue during 2005, 2004 and 2003. On a segment basis, the Company's golf ball customer base is much more concentrated than its golf club customer base. In 2005, the top five golf ball customers accounted for approximately 24% of the Company's total golf ball sales. A loss of one or more of these customers could have a significant adverse effect upon the Company's golf ball sales.

Adverse Global Economic Conditions

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

Terrorist Activity and Armed Conflict

Terrorist activities and armed conflicts in recent years (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, including the war in Iraq), as well as the threat of future conflict, have had a significant adverse effect upon the Company's business. Any such additional events would likely have an adverse effect upon the world economy 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 can negatively impact tourism, which could adversely affect the Company's sales to retailers at resorts and other vacation destinations.

Natural Disasters and Pandemic Diseases

The occurrence of a natural disaster, such as an earthquake or hurricane, or the outbreak of a pandemic disease, such as Severe Acute Respiratory Syndrome ("SARS") or the Avian Flu, could significantly adversely affect the Company's business. A natural disaster or a pandemic disease could significantly adversely affect both the demand for the Company's products as well as the supply of the components used to make the Company's products. Demand for golf products could be negatively affected as consumers in the affected regions restrict their recreational activities and as tourism to those areas declines. If the Company's suppliers experienced a significant disruption in their business as a result of a natural disaster or pandemic disease, the Company's ability to obtain the necessary components to make its products could be significantly adversely affected. In addition, the occurrence of a natural disaster or the outbreak of a pandemic disease generally restricts the travel to and from the affected areas, making it more difficult in general to manage the Company's international operations.

Foreign Currency Risk

A significant portion 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.

The Company's financial results are reported in U.S. dollars. As a result, transactions conducted in foreign currencies must be translated into U.S. dollars for reporting purposes based upon the applicable foreign currency exchange rates. Fluctuations in these foreign currency exchange rates therefore may positively or negatively affect the Company's reported financial results.

The effect of the translation of foreign currencies on the Company's financial results can be significant. The Company therefore engages in certain hedging activities to mitigate over time the impact of the translation of foreign currencies on the Company's financial results. The Company's hedging activities are designed to reduce, but not to eliminate, the effects of 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 affected by the value of the U.S. dollar in relation 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.

In addition, foreign currency fluctuations can also affect the prices at which products are sold in the Company's international markets. The Company therefore adjusts its pricing based in part upon fluctuations in foreign currency exchange rates. Significant unanticipated changes in foreign currency exchange rates make it more difficult for the Company to manage pricing in its international markets. If the Company is unable to adjust its pricing in a timely manner to counteract the effects of foreign currency fluctuations, the Company's pricing may not be competitive in the marketplace and the Company's financial results in its international markets could be adversely affected.

Growth Opportunities

In order for the Company to significantly grow its sales of golf clubs or golf balls, the Company must either increase its share of the market for golf clubs or balls, or the market for golf clubs or balls must grow. The Company already has a significant share of worldwide golf club sales and the Company's golf ball products achieved the number two retail market share in 2004. Therefore, opportunities for additional market share may be limited. The Company does not believe there has been any material increase in the number of golfers worldwide in over four years. Furthermore, the Company believes that overall worldwide golf club sales have generally not experienced substantial growth in the past several years. There is no assurance that the overall dollar volume of worldwide golf club or ball sales will grow, or that it will not decline, in the future.

Seasonality and Adverse Weather Conditions

In addition to the effects of product cycles described above, the Company's business is also subject to the effects of seasonal fluctuations. The Company's first quarter sales generally represent the Company's sell-in to the golf retail channel of its golf club products for the new golf season. Orders for many of these sales are received during the fourth quarter of the prior year. The Company's second and third quarter sales generally represent re-order business for golf clubs. Sales of golf clubs during the second and third quarters 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 or its competitors' products. The Company's sales of golf balls are generally associated with the level of rounds played in the areas where the Company's products are sold. Therefore, golf ball sales tend to be greater in the second and third quarters, when the weather is good in most of the Company's key markets and rounds played are up. Golf ball sales are also stimulated by product introductions as the retail channel takes on initial supplies. Like golf clubs, re-orders of golf balls depend on the rate of sell-through. The Company's sales during the fourth quarter are generally significantly less than the other quarters because in general in many of 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. In recent years, the Company has departed from that practice and now generally announces its new product line in the fourth quarter to allow retailers to plan better. Such early announcements of new products could cause golfers, and therefore the Company's customers, to defer purchasing additional golf equipment until the Company's new products are available. Such deferments could have a material adverse effect upon sales of the Company's current products and/or result in close out sales at reduced prices.

Because of these seasonal trends, the Company's business can be significantly adversely affected by unusual or severe weather conditions. Unfavorable weather conditions generally result in less golf rounds played, which generally results in less demand for golf clubs and golf balls. Furthermore, catastrophic storms can negatively affect golf rounds played not only during the storms but also for a significant period of time afterward as storm damaged golf courses are repaired and golfers focus on repairing the damage to their homes, businesses and communities. 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." The R&A rules currently permit driver clubheads with greater flexibility (as measured by a specific test) than are permitted under the USGA rules. As a result, in jurisdictions where the R&A rules are followed, the Company (like many of its competitors) has marketed and sold drivers that conform to the R&A rules but not the USGA rules (the "Plus Drivers"). In those jurisdictions where the USGA rules are followed, the Company markets and sells its standard drivers that conform to both the R&A and the USGA rules. All of the Company's other products are believed to conform to both the USGA and R&A rules.

Effective January 1, 2008, the more flexible clubheads such as those used for the Plus Drivers will not be conforming under the generally applicable Rules of Golf as published by the R&A. It is not clear what effect the change in rules will have upon demand for Plus Drivers in R&A jurisdictions as 2008 approaches or subsequent to the implementation of the new restrictions. It is possible that some jurisdictions and/or golfers will choose not to follow the R&A's changes and will instead continue to use Plus Drivers. This uncertainty adversely affects the

Company's research and development and manufacturing operations which must plan and commit resources years in advance of a new product release. If the Company does not accurately anticipate consumer reaction to the new rule changes, the Company's sales in such jurisdictions could be adversely affected and the Company could be required to invest significant resources to change its product offerings at such time. The Company also believes that the general confusion created by the ruling bodies of golf as to what is a conforming or non-conforming driver and the limits imposed on new driver technology generally have hurt sales of drivers.

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. If a change in rules were adopted and caused one or more of the Company's current products to be non-conforming, the Company's sales of such products could be adversely affected. Furthermore, any such new rules could restrict the Company's ability to develop new products.

Golf Professional Endorsements

The Company establishes relationships with professional golfers in order to evaluate and promote Callaway Golf, Odyssey, Top-Flite and Ben Hogan branded products. The Company has entered into endorsement arrangements with members of the various professional tours, including the Champions Tour, the PGA Tour, the LPGA Tour, the PGA European Tour, the Japan Golf Tour and the Nationwide Tour. While most professional golfers fulfil 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 or lack of endorsement.

The Company believes that professional usage of its golf clubs and golf balls contributes to retail sales. The Company therefore spends a significant amount of money to secure professional usage of its products. Many other companies, however, also aggressively seek the patronage of these professionals and offer many inducements, including significant cash rewards and specially designed products. There is a great deal of competition to secure the representation of tour professionals. As a result, it is becoming increasingly difficult and more expensive to attract and retain such tour professionals. The inducements offered by other companies could result in a decrease in usage of the Company's products by professional golfers or limit the Company's ability to attract other tour professionals. 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.

Intellectual Property and Proprietary Rights

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

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

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

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

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

Brand Licensing

The Company licenses its trademarks to third party licensees who produce, market and sell their products bearing the Company's trademarks. The Company chooses its licensees carefully and imposes upon such licensees various restrictions on the products, and on the manner, on which such trademarks may be used. In addition, the Company requires its licensees to abide by certain standards of conduct and the laws and regulations of the jurisdictions in which they do business. However, if a licensee fails to adhere to these requirements, the Company's brand could be damaged. The Company's brand could also be damaged if a licensee becomes insolvent or by any negative publicity concerning a licensee or if the licensee does not maintain good relationships with its customers or consumers, many of which are also the Company's customers and consumers.

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 by the Company, the incidence of defective clubs returned to date has not been material in relation to the volume of clubs that have been sold.

The Company monitors the level and nature of any golf club breakage and, where appropriate, seeks to incorporate design and production changes to assure its customers of the highest quality available in the market. Significant increases in the incidence of breakage or other product problems may adversely affect the Company's sales and image with golfers. The Company believes that it has adequate reserves for warranty claims. If the Company were to experience an unusually high incidence of breakage or other warranty problems in excess of these reserves, the Company's financial results would be adversely affected. See below, "Critical Accounting Policies and Estimates—Warranty" contained in Item 7.

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 the Company's 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 of its products in the "gray market" in both the U.S. and abroad, it has not stopped such commerce.

International Risks

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

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

Credit Risk

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

Information Systems

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

Change in Accounting Rules

The Company currently and historically has accounted for its stock-based compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Under APB No. 25, the Company is not required to record compensation expense for equity-based awards granted to employees. The Financial Accounting Standards Board recently issued SFAS No. 123R, "Share-Based Payment," which requires the Company to begin recording compensation expense for such awards based upon the fair value of such awards for the first fiscal year beginning after January 1, 2006. Such non-cash compensation expense is anticipated to have a significant adverse effect upon the Company's reported earnings.

Although the Company has historically provided in the notes to its financial statements pro forma earnings information showing what the Company's results would have been had the Company been recording compensation expense for such awards, the amount of such expense was not reflected in its financial results. Consequently, when the Company begins recording such compensation expense in 2006, the period over period comparisons will be significantly affected by the inclusion of such expense in 2006 and the absence of such expense from prior periods. If investors do not appropriately consider these changes in accounting rules, the price at which the Company's stock is traded could be significantly adversely affected.

Analyst Guidance, Media Reports and Market Volatility

The Company's stock is traded publicly, principally on the New York Stock Exchange. As a result, at any given time, there are usually various securities analysts who follow the Company and issue reports on the Company. These reports include information about the Company's historical financial results as well as the analysts' estimates of the Company's future performance. The analysts' estimates are based upon their own opinions and are often different from the Company's own estimates or expectations. The Company has a policy against 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. In addition to analyst reports, the media also reports its opinion on the Company's results. These media reports are often written quickly so as to be the first to the news wire and in an attempt to garner attention often lead with headlines that are not representative of the substance of the article. Furthermore, these media reports, which are often written by writers who are not financial experts, reflect only the writers' views of the Company's results. Investors should not assume that the Company agrees with such media reports or the manner in which the Company's results are presented or characterized in such reports.

The price at which the Company's stock is traded on the securities exchanges is based upon many factors. In the short-term, the price at which the Company's stock is traded can be significantly affected, positively or negatively, by analysts' reports and media reports, regardless of the accuracy of such reports. Over the long term, the price at which the Company's stock is traded should tend to reflect the Company's performance irrespective of such reports.

The Company may from time to time provide investors with estimates of anticipated revenues and earnings per share. If the Company provides such estimates, they will be based upon the information available and management's expectations at the time such estimates are made and actual results could differ materially. See "Important Notice to Investors" on the inside cover of this report.

Item 1B. ***Unresolved SEC Comments***

None.

Item 2. ***Properties***

The Company and its subsidiaries conduct operations in both owned and leased properties. The Company's principal executive offices and domestic operations are located in Carlsbad, California. The eight buildings utilized in the Company's Carlsbad operations include corporate offices, as well as manufacturing, research and development, warehousing and distribution facilities. These buildings comprise approximately 735,000 square feet. The Company owns seven of these buildings, representing approximately 585,000 square feet of space. An additional property, representing approximately 150,000 square feet of space, is leased and the lease is scheduled to expire in November 2007. As part of the Top-Flite Acquisition, the Company acquired the Chicopee, Massachusetts manufacturing plant, warehouse and offices that encompass approximately 869,000 square feet and a manufacturing plant in Gloversville, New York comprising approximately 70,000 square feet. In addition, the Company owns and leases a number of other properties domestically and internationally, including properties in Australia, Canada, Japan, Korea, the United Kingdom and China. The Company's operations at each of these properties are used to some extent for both the golf club and golf ball businesses. The Company believes that its facilities currently are adequate to meet its requirements.

Item 3. ***Legal Proceedings***

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

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

In the fall of 1999, the Company adopted a unilateral sales policy called the New Product Introduction Policy ("NPIP"). The NPIP sets forth the basis on which the Company chooses to do business with its customers with respect to the introduction of new products. The NPIP has been the subject of several legal challenges. Currently pending cases, described below, include Lundsford v. Callaway Golf, Case No. 2001-24-IV, pending in Tennessee state court ("Lundsford I"); Foulston v. Callaway Golf, Case No. 02C3607, pending in Kansas state court ("Foulston"); Murray v. Callaway Golf Sales Company, Case No. 3:04CV274-H, pending in the United States District Court for the Western District of North Carolina ("Murray"); and Lundsford v. Callaway Golf, Civil Action No. 3:04-cv-442, pending in the United States District Court for the Eastern District of Tennessee

("Lundsford II"). An adverse resolution of the NPIP cases could have a significant adverse effect upon the Company's results of operations, cash flows and financial position.

Lundsford I was filed on April 6, 2001, and seeks to assert a putative class action by plaintiff on behalf of himself and on behalf of consumers in Tennessee and Kansas who purchased select Callaway Golf products covered by the NPIP on or after March 30, 2000. Plaintiff asserts violations of Tennessee and Kansas antitrust and consumer protection laws and is seeking damages, restitution and punitive damages. The court has not made any determination that the case may proceed in the form of a class action. In light of the subsequently filed Lundsford II case, the parties agreed to stay Lundsford I and to dismiss it without prejudice once the federal court accepted jurisdiction over the state-law claims. Plaintiff has moved for summary judgment and class-certification in Lundsford I, but has withdrawn his request for a hearing on those motions.

In Foulston, filed on November 4, 2002, plaintiff seeks to assert an alleged class action on behalf of Kansas consumers who purchased Callaway Golf products covered by the NPIP and seeks damages and restitution for the alleged class under Kansas law. The trial court in Foulston stayed the case in light of Lundsford I. The Foulston court has not made any determination that the case may proceed in the form of a class action.

The complaint in Murray was filed on May 14, 2004, alleging that a retail golf business was damaged by the alleged refusal of Callaway Golf Sales Company to sell certain products after the store violated the NPIP, and by the failure to permit plaintiff to sell Callaway Golf products on the Internet. The proprietor seeks compensatory and punitive damages associated with the failure of his retail operation. Callaway Golf removed the case to the United States District Court for the Western District of North Carolina, and has answered the complaint denying liability. The parties are currently engaged in discovery and motion practice. The original trial date of December 2005 was vacated due to pending motions filed by Callaway Golf. A new trial date has not yet been set.

Lundsford II was filed on September 28, 2004, and the complaint asserts that the NPIP constitutes an unlawful resale price agreement and an attempt to monopolize golf club sales prohibited by federal antitrust law. The complaint also alleges a violation of the state antitrust laws of Tennessee, Kansas, South Carolina and Oklahoma. Lundsford II seeks to assert a nationwide class action consisting of all persons who purchased Callaway Golf clubs subject to the NPIP on or after March 30, 2000. Plaintiff seeks treble damages under the federal antitrust laws, compensatory damages under state law, and an injunction. The Lundsford II court determined on July 20, 2005 that the case may not proceed in the form of a class action. The court also denied plaintiff's motion for summary judgment. On September 22, 2005, the United States Court of Appeals for the Sixth Circuit denied plaintiff's request to file an interim appeal of the class certification issue. The plaintiff's request to the district court for permission to appeal the adverse ruling on the summary judgment ruling is pending. Trial has been set for the summer of 2006 with respect to the individual named plaintiff's claim.

On February 9, 2006, the Company filed a complaint in the United States District Court for the District of Delaware, case no. C.A. 06-91, asserting claims against Acushnet Company for patent infringement. Specifically, Callaway Golf asserts that Acushnet's sale of the Titleist Pro V1 family of golf balls infringes four golf ball patents that Callaway Golf acquired when it acquired the assets of Top-Flite. Callaway Golf is seeking damages and an injunction to prevent future infringement by Acushnet.

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

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

None.

Executive Officers of the Registrant

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

Name	Age	Position(s) Held
George Fellows	63	President and Chief Executive Officer, Director
Steven C. McCracken	55	Senior Executive Vice President, Chief Administrator Officer and Secretary
Bradley J. Holiday	52	Senior Executive Vice President and Chief Financial Officer
Robert A. Penicka	43	Senior Executive Vice President and Chief Operations Officer, Equipment

George Fellows is President and Chief Executive Officer of the Company as well as one of its Directors. He has served in such capacities since August 2005. Prior to joining the Company, during the period 2000 through July 2005, he served as President and Chief Executive Officer of GF Consulting, a management consulting firm, and served as Senior Advisor to Investcorp International, Inc. and J.P. Morgan Partners, LLC. Previously, Mr. Fellows was a member of senior management of Revlon, Inc. from 1993 to 1999, including his term as President commencing 1995 and Chief Executive Officer commencing 1997. He is a member of the board of directors of VF Corporation (a global apparel company). Mr. Fellows is also chair of the Audit Committee and a member of the Nominating and Governance Committee of VF Corporation. Previously, he has served on the boards of directors of Revlon, Inc., the National Association of Chain Drug Stores, the Cosmetics, Toiletries and Fragrance Association, and has served on the New York Stock Exchange Listed Company Advisory Committee. Mr. Fellows graduated in 1964 with a B.S. degree from City College of New York, received an MBA from Columbia University in 1966 and completed the Harvard Advanced Management Program in 1981.

Steven C. McCracken is Senior Executive Vice President, Chief Administrative Officer and Secretary of the Company and has served in such capacity since October 2005. He previously served as Senior Executive Vice President, Chief Legal Officer and Secretary from August 2000 until October 2005. He served as Executive Vice President, Licensing and Chief Legal Officer from April 1997 to August 2000. He has served as an Executive Vice President since April 1996 and served as General Counsel from April 1994 to April 1997. He served as Vice President from April 1994 to April 1996. He has served as Secretary since April 1994. Prior to joining the Company, Mr. McCracken was a partner at Gibson, Dunn & Crutcher LLP for 11 years, and had been in the private practice of law for over 18 years. During part of that period, he provided legal services to the Company. Mr. McCracken received a B.A., magna cum laude, from the University of California at Irvine in 1972 and a J.D. from the University of Virginia in 1975.

Bradley J. Holiday is Senior Executive Vice President and Chief Financial Officer of the Company and has served in such capacity since September 2003. Mr. Holiday previously served as Executive Vice President and Chief Financial Officer since August 2000. Prior to joining the Company, Mr. Holiday served as Vice President—Financial Planning & Analysis for Gateway, Inc. Prior to Gateway, Inc., Mr. Holiday was with Nike, Inc. in various capacities beginning in April 1993, including Chief Financial Officer—Golf Company, where he directed all global financial initiatives and strategic planning for Nike, Inc.'s golf business. Prior to Nike, Inc., Mr. Holiday served in various financial positions with Pizza Hut, Inc. and General Mills, Inc. Mr. Holiday has an M.B.A. in Finance from the University of St. Thomas and a B.S. in Accounting from Iowa State University.

Robert A. Penicka is Senior Executive Vice President, and Chief Operations Officer, Equipment, of the Company and has served in such capacity since January 2005. Mr. Penicka also serves as the President of The Top-Flite Golf Company, a wholly-owned subsidiary of the Company, and has served in such capacity since

September 2003. Previously, from June 2001 to September 2003, he served as the Company's Executive Vice President of Manufacturing. Prior to becoming Executive Vice President, Manufacturing, Mr. Penicka served as the Company's Senior Vice President of Golf Ball Manufacturing from May 2000 until June 2001. He also previously held the positions of Senior Vice President of Golf Club Manufacturing and Vice President of Manufacturing Technology. Mr. Penicka joined Callaway Golf in 1997 when the Company acquired Odyssey Golf. At Odyssey Golf, Mr. Penicka served as Vice President of Manufacturing, based in Chicago. Prior to entering the golf business, he spent eight years with General Electric Company and six years at Harman International Industries in Indianapolis as Vice President of Manufacturing for its automotive OEM business. Mr. Penicka graduated with a degree in Chemical Engineering from The Ohio State University in 1984.

Information with respect to the Company's employment agreements with its Chief Executive Officer and other four most highly compensated executive officers, is contained in the Company's definitive Proxy Statement. In addition, the Company currently has employment agreements with each of its executive officers which are included as exhibits to this report.

PART II

Item 5. *Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities*

The Company's Common Stock is listed, and principally traded, on the New York Stock Exchange ("NYSE"). The Company's symbol for its Common Stock is "ELY." As of January 31, 2006, the approximate number of holders of record of the Company's Common Stock was 8,900. The following table sets forth the range of high and low per share closing prices of the Company's Common Stock and per share dividends for the periods indicated.

	Year Ended December 31,					
	2005			2004		
Period:	High	Low	Dividend	High	Low	Dividend
First Quarter	$ 14.20	$ 12.11	$ 0.07	$ 19.23	$ 16.93	$ 0.07
Second Quarter	$ 15.55	$ 10.78	$ 0.07	$ 19.95	$ 11.09	$ 0.07
Third Quarter	$ 15.55	$ 14.46	$ 0.07	$ 12.50	$ 10.30	$ 0.07
Fourth Quarter	$ 15.45	$ 13.12	$ 0.07	$ 13.50	$ 9.28	$ 0.07

Securities Authorized for Issuance Under Equity Compensation Plans

Information about the Company's equity compensation plans at December 31, 2005 is as follows:

Equity Compensation Plan Information

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance
	(In thousands, except dollar amounts)		
Equity Compensation Plans Approved by Shareholders[1]	5,308	$ 16.92	6,766[2]
Equity Compensation Plans Not Approved by Shareholders[3]	4,986	$ 17.00	—
Total	10,294	$ 16.96	6,766[2]

(1) Consists of the following plans: 1991 Stock Incentive Plan, 1996 Stock Option Plan, 1998 Stock Incentive Plan, Non-Employee Directors Stock Option Plan, 2001 Non-Employee Directors Stock Option Plan and 2004 Equity Incentive Plan and Employee Stock Purchase Plan. No shares are available for grant under the 1991 Stock Incentive Plan, 1996 Stock Option Plan, 1998 Stock Incentive Plan or Non-Employee Directors Stock Option Plan at December 31, 2005. The 2001 Non-Employee Directors Stock Option Plan provides for stock option awards only. The 2004 Equity Incentive Plan permits the award of stock options, restricted stock and various other stock-based awards.

(2) Includes 3.7 million shares reserved for issuance under the Employee Stock Purchase Plan.

(3) Consists of the following plans: 1995 Employee Stock Incentive Plan and 1992 Promotion, Marketing and Endorsement Stock Incentive Plan. No shares are available for grant under these plans at December 31, 2005.

Equity Compensation Plans Not Approved By Shareholders

The Company has the following equity compensation plans which were not approved by shareholders: the 1995 Employee Stock Incentive Plan (the "1995 Plan") and the 1992 Promotion, Marketing and Endorsement Stock Incentive Plan (the "Promotion Plan"). No shares are available for grant under the 1995 Plan or the Promotion Plan at December 31, 2005. For additional information, see "Notes to Consolidated Financial Statements, Note 10—Stock, Stock Options and Rights."

1995 Plan. Under the 1995 Plan, the Company granted stock options to non-executive officer employees and consultants of the Company. Although the 1995 Plan permitted stock option grants to be made at less than the fair market value of the Company's Common Stock on the date of grant, the Company's practice was to generally grant stock options at exercise prices equal to the fair market value of the Company's Common Stock on the date of grant.

Promotion Plan. Under the Promotion Plan, the Company granted stock options to golf professionals and other endorsers of the Company's products. Such grants were generally made at prices that were equal to the fair market value of the Company's Common Stock on the date of grant.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In November 2005, 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, up to a maximum cost to the Company of $50.0 million. The new stock repurchase program supersedes the May 2002 repurchase program and all prior stock repurchase authorizations. There were no repurchases under this authorization during the fourth quarter of 2005.

During 2005, the Company repurchased 3,000 shares of its Common Stock at an average cost per share of $12.36 through the withholding of shares in satisfaction of employee tax obligations related to the vesting of employee restricted stock awards. There were no share repurchases during the fourth quarter of 2005. The Company's repurchases of shares of Common Stock are recorded at average cost in Common Stock held in treasury and result in a reduction of shareholders' equity. See below "Share Repurchases" contained in Item 7.

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

The following statements of operations data and balance sheet data for the five years ended December 31, 2005 were derived from the Company's audited consolidated financial statements. Consolidated balance sheets at December 31, 2005 and 2004 and the related consolidated statements of operations and statements of cash flows for each of the three years in the period ended December 31, 2005 and notes thereto appear elsewhere in this report. The following data should be read in conjunction with the annual consolidated financial statements, related notes and other financial information appearing elsewhere in this report.

	Year Ended December 31,				
	2005[1,2]	2004[2,3]	2003[2,4]	2002[5]	2001[6]
	(In thousands, except per share data)				
Statement of Operations Data:					
Net sales[7]	$998,093	$934,564	$814,032	$793,219	$818,072
Cost of sales	583,679	575,742	445,417	393,068	411,585
Gross profit[7]	414,414	358,822	368,615	400,151	406,487
Selling, general and administrative expenses[7]	370,219	352,967	273,231	256,909	259,473
Research and development expenses	26,989	30,557	29,529	32,182	32,697
Income (loss) from operations[7]	17,206	(24,702)	65,855	111,060	114,317
Interest and other income (expense), net[7]	(390)	1,934	3,550	2,271	5,349
Interest expense	(2,279)	(945)	(1,522)	(1,660)	(1,552)
Unrealized energy derivative losses	—	—	—	—	(19,922)
Income (loss) before income taxes	14,537	(23,713)	67,883	111,671	98,192
Income tax provision (benefit)	1,253	(13,610)	22,360	42,225	39,817
Net income (loss)	$ 13,284	$ (10,103)	$ 45,523	$ 69,446	$ 58,375
Earnings (loss) per common share:					
Basic	$ 0.19	$ (0.15)	$ 0.69	$ 1.04	$ 0.84
Diluted	$ 0.19	$ (0.15)	$ 0.68	$ 1.03	$ 0.82
Dividends paid per share	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28

	December 31,				
	2005	2004	2003	2002	2001
			(In thousands)		
Balance Sheet Data:					
Cash and cash equivalents	$ 49,481	$ 31,657	$ 47,340	$ 108,452	$ 84,263
Marketable securities	$ —	$ —	$ —	$ —	$ 6,422
Working capital	$ 298,385	$ 272,934	$ 253,302	$ 259,866	$ 252,817
Total assets	$ 764,498	$ 735,737	$ 748,566	$ 679,845	$ 647,602
Long-term liabilities	$ 28,245	$ 28,622	$ 29,023	$ 27,297	$ 31,379
Total shareholders' equity	$ 596,048	$ 586,317	$ 589,383	$ 543,387	$ 514,349

(1) In September 2005, the Company began the implementation of several company-wide restructuring initiatives designed to improve the Company's business processes and reduce the Company's overall expenses. In connection with these initiatives, the Company recorded pre-tax charges in the amount of $8.3 million, which is comprised of $7.1 million for employee termination benefits and $1.2 million for facility closures for the year ended December 31, 2005. These charges reduced the Company's gross profit, net income and earnings per common share by approximately $2.1 million, $5.2 million and $0.08, respectively, for the year ended December 31, 2005 (see Note 4 to the Consolidated Financial Statements).

(2) During 2005, 2004 and 2003, the Company's gross profit, net income and earnings per common share include the recognition of certain integration charges related to the consolidation of its Callaway Golf and Top-Flite golf ball and golf club manufacturing and research and development operations. These charges reduced the Company's gross profit, net income and earnings per common share by approximately $6.4 million, $7.7 million and $0.11, respectively, for the year ended December 31, 2005, $15.7 million, $17.5 million and $0.26, respectively, for the year ended December 31, 2004 and $24.1 million, $16.1 million and $0.24, respectively, for the year ended December 31, 2003. (See Note 4 to the Consolidated Financial Statements).

(3) On May 28, 2004, the Company acquired all of the issued and outstanding shares of stock of FrogTrader, Inc. Thus, the Company's financial data includes the FrogTrader, Inc. results of operation commencing May 28, 2004.

(4) On September 15, 2003 the Company completed the domestic portion of the Top-Flite Acquisition. The settlement of the international assets was effective October 1, 2003. Thus, the Company's financial data includes The Top-Flite Golf Company results of operations in the United States commencing September 15, 2003, and the international operations commencing October 1, 2003. (See Note 3 to the Consolidated Financial Statements).

(5) For 2002, the Company's gross profit, net income and earnings per common share include the effect of the change in accounting estimate for the Company's warranty reserve. During the third quarter of 2002, the Company changed its methodology of estimating warranty accruals as a result of the development of improved data collection techniques and reduced its warranty reserve by approximately $17.0 million, pre-tax.

(6) For 2001, the Company's net income and earnings per common share include the recognition of unrealized energy contract losses due to changes in the estimated fair value of the energy contract based on market rates. During the second and third quarters of 2001, the Company recorded $6.4 million and $7.8 million, respectively, of after-tax unrealized losses. During the fourth quarter of 2001, the Company terminated the energy contract. As a result, the Company will continue to reflect the derivative valuation account on its balance sheet with no future valuation adjustments for changes in market rates, subject to periodic review (see Note 13 to the Consolidated Financial Statements).

(7) Beginning with the first quarter of 2003, the Company records royalty revenue in net sales and royalty related expenses as selling expenses. Previously, royalty revenue and the related expenses were recorded as components of other income. Prior periods have been reclassified to conform with the current basis of presentation.

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

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

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

Sales are recognized in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements," as products are shipped to customers, net of an allowance for sales returns and sales programs. The criteria for recognition of revenue are when persuasive evidence that an arrangement exists, delivery has occurred and both title and risk of loss have passed to the customer, the price is fixed or determinable and collectibility is reasonably assured. Sales returns are estimated based upon historical returns, current economic trends, changes in customer demands and sell-through of products. The Company also records estimated reductions to revenue for sales programs such as incentive offerings. Sales program accruals are estimated based upon the attributes of the sales program, management's forecast of future product demand, and historical customer participation in similar programs. If the actual costs of sales returns and sales programs significantly exceed the recorded estimated allowance, the Company's sales would be significantly adversely affected.

Allowance for Doubtful Accounts

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

Inventories

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

Long-Lived Assets

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

Warranty

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

Taxes

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

The Company is required to file federal and state tax returns in the United States and various other tax returns in foreign jurisdictions. The preparation of these tax returns requires the Company to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could affect the amount of tax paid by the Company. The Company, in consultation with its tax advisors, bases its tax returns on interpretations that are believed to be reasonable under the circumstances. The tax returns, however, are subject to routine reviews by the various taxing authorities in the jurisdictions in which the Company files its returns. As part of these reviews, a taxing authority may disagree with respect to the interpretations the Company used to calculate its tax liability and therefore require the Company to pay additional taxes. As required under applicable accounting rules, the Company therefore accrues an amount for its estimate of additional tax liability, including interest and penalties, which the Company could incur as a result of the ultimate resolution of disagreements with the various taxing authorities related to federal, state and international tax matters. The tax contingency accrual is recorded as a component of the Company's net income taxes payable/receivable balance, which the Company reviews and updates over time as more definitive information becomes available from taxing authorities, completion of tax audits, expiration of statute of limitations, or upon occurrence of other events.

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is contained in Note 2 to the Consolidated Financial Statements, which is incorporated herein by this reference.

FrogTrader Acquisition

On May 28, 2004, the Company acquired all of the issued and outstanding shares of stock of FrogTrader, Inc. (“FrogTrader”), an e-commerce company which subsequently changed its name to Callaway Golf Interactive, Inc. The Company’s consolidated statements of operations include the financial results of FrogTrader for the period from the acquisition date of May 28, 2004. The Company acquired FrogTrader to stimulate purchases of new clubs by growing the Trade In! Trade Up! program and to enable the Company to better manage the distribution of pre-owned golf clubs and the Callaway Golf brand.

The FrogTrader acquisition was accounted for as a purchase in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 141, “Business Combinations.” Under SFAS No. 141, the aggregate cost of the acquired stock was $15.2 million, which included transaction costs of approximately $0.2 million, and was paid entirely in cash. The aggregate acquisition costs exceeded the estimated fair value of the net assets acquired. As a result, the Company has recorded goodwill of $9.1 million, none of which is deductible for tax purposes. The Company has recorded the fair values of FrogTrader’s internally developed software and certain customer information based on an assessment from an outside valuation company received during 2004. The allocation of the aggregate acquisition costs is as follows (in millions):

Assets Acquired:	
Cash	$ 6.0
Accounts receivable	0.1
Inventory	2.0
Other current assets	1.5
Property, plant and equipment	0.3
Internally developed software	1.2
Customer lists	0.7
Goodwill	9.1
Liabilities Assumed:	
Current liabilities	(5.6)
Long-term liabilities	(0.1)
Total net assets acquired	$15.2

Top-Flite Acquisition

On September 15, 2003, the Company acquired through a court-approved sale substantially all of the golf-related assets of TFGC Estate Inc. (f/k/a The Top-Flite Golf Company, f/k/a Spalding Sports Worldwide, Inc.) and thereafter completed the valuation and settlement of certain additional assets related to the international operations of TFGC Estate Inc. The settlement of the international assets was effective October 1, 2003. Assets located in the United States were acquired by the Company’s newly-formed, wholly-owned subsidiary, The Top-Flite Golf Company. Foreign assets were acquired by the Company’s existing wholly-owned subsidiaries in the relevant countries. The Company’s results of operations include The Top-Flite Golf Company’s results in the United States beginning September 15, 2003 and the results of the international operations beginning October 1, 2003.

The Top-Flite Acquisition provided a unique opportunity to significantly increase the size and profitability of the Company’s golf ball business and the Company was able to purchase the acquired assets at less than their estimated fair value. The Company paid the cash purchase price for the Top-Flite Acquisition from cash on hand.

The Company intends to continue the U.S. and foreign operations of the acquired golf assets, including the use of the acquired assets in the manufacturing of golf balls and golf clubs and the commercialization of the Top-Flite and Ben Hogan brands, patents and trademarks.

The Top-Flite Acquisition was accounted for as a purchase in accordance with SFAS No. 141. Under SFAS No. 141, the aggregate cost of the acquired assets was $183.0 million, which includes cash paid of $154.1 million, transaction costs of approximately $6.3 million, and assumed liabilities of approximately $22.5 million. The estimated fair value of the assets acquired exceeded the estimated aggregate acquisition costs. As a result, the Company was required to reduce the carrying value of the acquired long-term assets on a pro rata basis. The allocation of the aggregate acquisition costs is as follows (in millions):

Assets Acquired:	
Accounts receivable	$ 45.3
Inventory	32.8
Other assets	1.1
Property and equipment	55.8
Intangible assets	48.0
Liabilities Assumed:	
Current liabilities	(17.4)
Long-term liabilities	(5.1)
Total net assets acquired	$160.5

In October 2005, following the Top-Flite Acquisition, the Company completed its full consolidation of the Callaway golf ball manufacturing with the Top-Flite golf ball manufacturing at the Chicopee, Massachusetts and Gloversville, New York locations. During December 2005, 2004 and 2003, in connection with the consolidation, the Company incurred charges to pre-tax earnings of $12.4 million, $28.5 million and $24.1 million, respectively. The 2005 charges included noncash charges for acceleration of depreciation on certain golf ball manufacturing equipment and cash charges related to severance and facility consolidations. The charges incurred during 2004 included severance, the disposition of certain long-lived assets and facility consolidations. During 2006, the Company anticipates additional charges to pre-tax earnings of $3.0 million in order to complete the restoration of the ball manufacturing plant in Carlsbad, California.

Results of Operations

Overview

The Company’s sales improved in 2005 as compared to 2004, primarily due to favorable consumer acceptance of the Company’s new products launched during 2005. Sales for 2005 increased 7% as compared to 2004, contributing to record sales for the Company in the current year.

The Company’s earnings for 2005 also improved to $0.19 per diluted share compared to a loss of $0.15 per diluted share in 2004. Although earnings improved, they are still not at desired levels. The Company therefore announced on September 29, 2005 several company-wide initiatives designed to improve the Company’s business processes and reduce the Company’s overall expenses by an estimated $70 million over a two year period, with between $50 and $60 million of savings expected in 2006 (the “2005 Restructuring Initiatives”). Some of these expected savings will be reinvested back into the business to generate growth but a majority is expected to flow through to the bottom line. The Company has already begun to see the benefits of the 2005 Restructuring Initiatives as operating expenses decreased in the fourth quarter of 2005 as compared to the fourth quarter of 2004. The Company is also in the process of undertaking other business improvement initiatives, including the review of manufacturing processes, automation opportunities and sourcing strategies in an effort to improve gross margins.

The cost of implementing the 2005 Restructuring Initiatives is expected to result in pre-tax charges of approximately $12.0 million, $8.3 million of which was recorded in 2005 and the balance of which is expected to be recorded in 2006. The 2005 Restructuring Initiatives are in addition to the previously reported integration charges associated with the integration of the Callaway Golf and Top-Flite operations ("Top-Flite Integration"). The Top-Flite Integration is nearing completion and all of the Company's golf balls are now being manufactured at the two facilities acquired in the Top-Flite Acquisition. To date, the Company has recorded charges of $65.0 million associated with the Top-Flite Integration and the Company expects to record additional charges of approximately $3.0 million in 2006 as it completes the restoration of its ball manufacturing plant in Carlsbad, California.

Management believes the Company is in a good position entering 2006. There are several new products being introduced and the initial response from retailers has been positive. It is expected that the Company will continue to realize the benefits of the 2005 Restructuring Initiatives during 2006 and 2007. Furthermore, the Company has increased the amount of inventory that it has on hand as it enters the 2006 golf season and does not expect to experience the same supply constraint issues in 2006 that it experienced in 2005. One of the Company's primary objectives for 2006 will be to strengthen the Company's marketing programs and enhance customer service (particularly regarding on time delivery of new products) in an effort to improve the Company's position in the marketplace and grow profitability.

Years Ended December 31, 2005 and 2004

Net sales increased 7% to $998.1 million for the year ended December 31, 2005 as compared to $934.6 million for the year ended December 31, 2004. The overall increase in net sales is primarily due to a $57.4 million (22%) increase in sales of irons, combined with an $11.2 million (11%) increase in sales of accessories and other products, an $8.8 million (9%) increase in sales of putters and a $2.7 million (1%) increase in sales of drivers and fairway woods during the year ended December 31, 2005 as compared to the year ended December 31, 2004. These increases were partially offset by a $16.6 million (7%) decrease in sales of golf balls due to a decline in Top-Flite golf ball sales during the year. The overall increase in net sales during 2005 is generally attributable to favorable consumer acceptance of the Company's products launched during 2005.

Net sales information by product category is summarized as follows:

	Year Ended December 31,		Growth (Decline)	
	2005	2004	Dollars	Percent
	(In millions)			
Net Sales:				
Driver and fairway woods	$241.3	$238.6	$ 2.7	1%
Irons	316.5	259.1	57.4	22%
Putters	109.3	100.5	8.8	9%
Golf balls	214.7	231.3	(16.6)	(7)%
Accessories and other	116.3	105.1	11.2	11%
	$998.1	$934.6	$ 63.5	7%

The $2.7 million (1%) increase in net sales of drivers and fairway woods to $241.3 million for the year ended December 31, 2005 resulted from increased sales volumes almost entirely offset by lower average selling prices in 2005 compared to the prior year. The majority of this increase related to sales of the Company's new 2005 products including new Callaway titanium drivers, multi-material driver and fairway woods products and hybrid woods products as well as an increase in sales of the Company's new 2005 Ben Hogan drivers and fairway woods products, which were all introduced during the current year. This increase was partially offset by a decline in sales of the Company's older multi-material and titanium driver products, steel fairway woods products and titanium fairway woods products, which were expected as the Company's products generally sell better in their first year after introduction and 2005 is the second year in the life cycles of these products.

The $57.4 million (22%) increase in net sales of irons to $316.5 million for the year ended December 31, 2005 resulted from higher sales volumes as well as higher average selling prices during 2005 compared to 2004. The increase in sales volumes is primarily attributable to the Company offering more new irons models in its 2005 product line than its 2004 product line, including multi-material irons products which were not introduced until the fourth quarter of 2004. The increase in average selling prices is due to a shift in product mix to higher priced multi-material and steel irons products. These sales increases were partially offset by a decrease in the Company's older irons products which were in the second and third years of their product life cycles.

The $8.8 million (9%) increase in net sales of putters to $109.3 million for the year ended December 31, 2005 is attributable to the current year introduction of the Odyssey White Steel and Dual Force 2 putters and the Callaway Golf I-Trax Putter partially offset by decreased sales of the Company's older putter models which were in the second and third years of their product life cycles.

The $16.6 million (7%) decrease in net sales of golf balls to $214.7 million for the year ended December 31, 2005 resulted from decreased Top-Flite golf ball sales partially offset by an increase in Callaway Golf ball sales. The decrease in Top-Flite golf ball sales resulted from lower sales volumes and lower average selling prices. The decrease is due in part to the planned reduction in the number of Top-Flite golf ball models in the 2005 product line as a result of the Company's discontinuance of certain less profitable golf ball models. The increase in Callaway golf ball sales is primarily due to the expansion of the Callaway golf ball product line as a result of the successful launch of two new Callaway Golf ball models during 2005.

The $11.2 million (11%) increase in net sales of accessories and other products to $116.3 million for the year ended December 31, 2005 is primarily attributable to a $10.4 million increase in sales of pre-owned products through the FrogTrader business resulting from the inclusion of FrogTrader sales for a full year in 2005 compared to seven months in 2004, as well as an increase in sales of Callaway Golf bags and royalty revenue from other licensed merchandise.

Net sales information by region is summarized as follows:

	Year Ended December 31,		Growth (Decline)	
	2005	2004	Dollars	Percent
	(In millions)			
Net Sales:				
United States	$563.0	$546.2	$ 16.8	3%
Europe	166.2	169.5	(3.3)	(2)%
Japan	103.4	70.5	32.9	47%
Rest of Asia	66.9	51.7	15.2	29%
Other foreign countries	98.6	96.7	1.9	2%
	$998.1	$934.6	$ 63.5	7%

Net sales in the United States increased $16.8 million (3%) to $563.0 million during 2005 compared to 2004. In addition, the Company's sales in regions outside of the United States increased $46.7 million (12%) to $435.1 million during 2005 compared to 2004. This increase in international sales is primarily attributable to a $48.1 million (39%) increase in sales in Japan and the rest of Asia due to favorable consumer acceptance of the Company's new products launched in those regions during 2005. These increases were partially offset by a $3.3 million (2%) decrease in sales in Europe, primarily attributable to the Company's failure to supply sufficient product to satisfy demand in that region during the first half of 2005 which was tempered by the increase in sales experienced during the third quarter of 2005. The Company's net sales were also positively affected by changes in foreign currency rates. See above, "Certain Factors Affecting Callaway Golf Company—Foreign Currency Risk" contained in Item 1A.

For the year ended December 31, 2005, gross profit increased $55.6 million (15%) to $414.4 million from $358.8 million in the comparable period of 2004. Gross profit as a percentage of net sales increased to 42% in 2005 from 38% in 2004. This improvement in gross margins is due to a more favorable product mix and the impact of favorable changes in foreign exchange rates partially offset by a decline in average selling prices of some of the Company's driver and fairway woods products. The increase in gross profit was partially offset by charges of $6.4 million related to the Top-Flite Integration and $2.1 million related to the 2005 Restructuring Initiatives. In 2004, gross profit was negatively affected by charges of $15.7 million related to the Top-Flite Integration.

Selling expenses increased $27.0 million (10%) in 2005 to $290.1 million from $263.1 million in 2004. As a percent of sales, selling expenses increased to 29% in 2005 compared to 28% in 2004. This increase was primarily due to increases in tour and promotional expenses of $17.5 million and advertising expense of $3.8 million in 2005 compared to 2004. These increases were primarily due to costs associated with brand investment, increased marketing expenses in support of new product launches and expenses associated with successful tour player performance. Additionally, the Company incurred selling expenses of $2.1 million related to the Top-Flite Integration and $4.4 million related to the 2005 Restructuring Initiatives. In 2004, the Company incurred selling expenses of $4.4 million related to the Top-Flite Integration.

General and administrative expenses decreased $9.8 million (11%) in 2005 to $80.1 million from $89.9 million in 2004. As a percent of sales, general and administrative expenses decreased to 8% in 2005 from 10% in 2004. This decrease was primarily due to a decrease in legal expense of $7.2 million due to the fact that the Company incurred significant litigation expense in 2004 to defend certain suits which have since been resolved. In addition, during 2004, the Company incurred higher fees in connection with the settlement of certain litigation. The decrease in general and administrative expenses was also due to a decline in employee costs of $6.2 million as a result of a reduction in workforce in 2005 compared to 2004. The decrease in employee costs was partially offset by charges of $1.5 million related to employee termination benefits in connection with the 2005 Restructuring Initiatives. Additionally, these decreases were partially offset by an increase of $1.2 million of consulting fees.

Research and development expenses decreased $3.6 million (12%) in 2005 to $27.0 million from $30.6 million in 2004. As a percent of sales, research and development expenses remained consistent at 3% in both periods. The dollar decrease was primarily due to a decline in employee costs as a result of a reduction in workforce in 2005 compared to 2004.

Interest and other income (expense), net decreased to expense of $0.4 million in 2005 from income of $1.9 million in 2004. The $2.3 million decrease is primarily attributable to a $3.2 million increase in net foreign currency losses in 2005 compared to 2004.

Interest expense increased $1.3 million due to an increase in the average outstanding borrowings under the Company's line of credit in 2005 compared to 2004.

The income tax provisions as a percent of income before taxes reflect a provision rate of 9% and a benefit rate of 57% for the years ended December 31, 2005 and 2004, respectively. During 2005 and 2004, the Company's tax rate varied from its statutory rate primarily as a result of recorded net favorable adjustments of $3.6 million and $4.4 million, respectively, related to the reassessment and resolution of various tax exposures. The increase in income taxes as a percent of income before taxes was due to the fact that the 2004 adjustments had a larger impact on the income tax rate resulting from lower income before income taxes in 2004 compared to 2005.

Net income for 2005 increased $23.4 million (231%) to $13.3 million from a loss of $10.1 million in 2004. Diluted earnings per share increased to $0.19 in 2005 compared to a loss per share of $0.15 in 2004. In 2005, net income was negatively impacted by after-tax charges related to the 2005 Restructuring Initiatives and the Top-Flite Integration in the amounts of $5.2 million ($0.08 per share) and $7.7 million ($0.11 per share), respectively. In 2004, net income was negatively impacted by after-tax charges related to the Top-Flite Integration in the amount of $17.5 million ($0.26 per share).

Years Ended December 31, 2004 and 2003

Net sales increased 15% to $934.6 million for the year ended December 31, 2004 as compared to $814.0 million for the year ended December 31, 2003. The overall increase in net sales is primarily due to a $153.0 million (195%) increase in the sales of golf balls and a $45.5 million (76%) increase in the sales of accessories and other products as compared to 2003. The increase in golf ball sales resulted from the inclusion of Top-Flite ball sales for a full year in 2004 compared to 15 weeks in 2003 as well as a $42.1 million increase in Callaway Golf brand golf ball sales. The increase in accessories and other products sales is primarily due to the inclusion of Top-Flite accessories and other product sales for a full year in 2004 compared to 15 weeks in 2003. These increases were partially offset by a $42.3 million (30%) decrease in sales of putters, a $21.6 million (8%) decrease in sales of irons and a $13.9 million (5%) decrease in sales of woods in 2004 as compared to 2003.

The Company's net sales were significantly affected by the $171.3 million increase in sales of Top-Flite and Ben Hogan branded products due to the inclusion of these sales for a full year in 2004 compared to 15 weeks in 2003. Excluding sales of Top-Flite and Ben Hogan branded products, sales of Callaway Golf and Odyssey branded products were $722.8 million in 2004, a $50.8 million (7%) decrease as compared to 2003. This decrease is primarily due to a decline in sales of products that were in their second and third year of their product life cycles as well as a decline in average selling prices.

The Company believes that its overall net sales in 2004 were adversely affected by continued competitive pressures (which had a negative impact upon average selling prices), limited market acceptance of certain of the Company's 2004 products, continued economic uncertainty in many of the Company's key markets, as well as the military actions in the Middle East. The Company's net sales are also affected by changes in foreign currency rates. See above, "Certain Factors Affecting Callaway Golf Company—Foreign Currency Risk" contained in Item 1A.

Net sales information by product category is summarized as follows:

	Year Ended December 31,		Growth (Decline)	
	2004	2003	Dollars	Percent
	(In millions)			
Net Sales:				
Driver and fairway woods	$238.6	$252.4	$ (13.8)	(5)%
Irons*	259.1	280.7	(21.6)	(8)%
Putters	100.5	142.8	(42.3)	(30)%
Golf balls	231.3	78.4	152.9	195%
Accessories and other*	105.1	59.7	45.4	76%
	$934.6	$814.0	$120.6	15%

* Beginning with the year ended December 31, 2004, the Company includes wedge sales within the iron sales product category. Previously, wedge sales were included as a component of the accessories and other category. Prior periods have been reclassified to conform with the current basis of presentation.

The $13.8 million (5%) decrease in net sales of drivers and fairway woods to $238.6 million for the year ended December 31, 2004 resulted from lower average selling prices, partially offset by higher sales volumes in 2004 compared to the prior year. The majority of this decrease in sales related to a decline in sales of titanium fairway woods products. This decline in fairway woods sales was expected as the titanium fairway woods products were introduced in 2003 and 2002 and were considered closeout products in 2004. Also contributing to the decline in woods sales were the credits given to retailers in connection with sales programs to reduce inventory levels at retail. These declines were partially offset by an increase in sales of the Company's steel fairway woods products and sales of the Company's new hybrid woods products and new fusion fairway woods products which were introduced during 2004.

The $21.6 million (8%) decrease in net sales of irons to $259.1 million for the year ended December 31, 2004 was due to a combination of lower sales volumes and lower average selling prices in 2004 compared to 2003. This decline was expected as the Company's steel and titanium iron products were in the second year of their product life cycle and such products generally sell better in the first year after introduction. These decreases were partially offset by the introduction of the Company's fusion irons in 2004 as well as an increase in Top-Flite irons sales, resulting from the inclusion of Top-Flite sales for a full 12 months in 2004 as compared to 15 weeks in 2003.

The $42.3 million (30%) decrease in net sales of putters to $100.5 million for the year ended December 31, 2004 was due to a combination of lower sales volumes and lower average selling prices in 2004 compared to 2003. The majority of this decrease was attributable to decreased sales of White Hot putters which were introduced in 2002, partially offset by the introduction of the new White Steel line of putters in 2004 and the inclusion of Top-Flite sales for a full 12 months in 2004 as compared to 15 weeks in 2003.

The $153.0 million (195%) increase in net sales of golf balls to $231.3 million for the year ended December 31, 2004 was primarily attributable to higher sales volumes resulting from the inclusion of Top-Flite and Ben Hogan golf ball sales for a full 12 months in 2004 as compared to 15 weeks in 2003. Sales of the Top-Flite and Ben Hogan brand golf balls were $144.9 million. Callaway Golf ball sales during 2004 were $86.4 million, an increase of $42.1 million (95%) from the year ended 2003. The increase in sales of Callaway Golf brand golf balls was driven by the success of the HX Tour golf ball products, as well as increased sales across the entire line of Callaway Golf ball products.

The $45.4 million (76%) increase in net sales of accessories and other products is primarily attributable to sales of Top-Flite and Ben Hogan bags, gloves and other accessories, sales of pre-owned products through the FrogTrader business acquired in May of 2004, combined with an increase in sales of Callaway Golf footwear, travel bags and other accessories.

Net sales information by region is summarized as follows:

	Year Ended December 31,		Growth/(Decline)	
	2004	2003	Dollars	Percent
		(In millions)		
Net Sales:				
United States	$546.2	$449.4	$ 96.8	22%
Europe	169.5	145.1	24.4	17%
Japan	70.5	101.3	(30.8)	(30)%
Rest of Asia	51.7	58.3	(6.6)	(11)%
Other foreign countries	96.7	59.9	36.8	61%
	$934.6	$814.0	$120.6	15%

Net sales in the United States increased $96.8 million (22%) to $546.2 million during 2004 versus 2003. Overall, the Company's sales in regions outside of the United States increased $23.8 million (7%) to $388.4 million during 2004 versus 2003. This increase in international sales is primarily attributable to a $24.4 million (17%) increase in sales in Europe and a $36.8 million (61%) increase in sales in other foreign countries. The increase in the United States, Europe and other foreign countries, was primarily attributable to the inclusion of Top-Flite for a full 12 months in 2004 versus 15 weeks in 2003. These increases were partially offset by a $30.8 million (30%) decrease in sales in Japan and a $6.6 million (11%) decrease in sales in other areas of Asia.

For the year ended December 31, 2004, gross profit decreased $9.8 million (3%) to $358.8 million from $368.6 million in the comparable period of 2003. Gross profit as a percentage of net sales decreased 7 percentage points to 38% in 2004 as compared to 45% in 2003. The Company's gross profit in 2004 and 2003 was unfavorably impacted by $15.7 million and $24.1 million, respectively, as a result of charges associated with the integration of the Top-Flite operations. The Company's overall gross profit was also negatively impacted by lower average selling prices of golf club and ball products, resulting from increased competitive pressure in the marketplace during 2004, as well as lower Top-Flite margins.

Selling expenses increased $55.3 million (27%) in 2004 to $263.1 million from $207.8 million in 2003, and were 28% and 26% of net sales, respectively. This increase was primarily due to the $44.2 million increase in Top-Flite selling expenses resulting from the inclusion of a full year of Top-Flite selling expenses in 2004 as compared to 15 weeks in 2003. The increase was also due to a $17.2 million increase in tour and promotional expenses incurred primarily during the first half of the year, as a result of the Company's strategy to increase its presence on golf's major professional tours. Additionally, the Company incurred $4.4 million of selling integration costs in connection with the integration of the Top-Flite operations with the Callaway Golf operations. These increases were partially offset by decreases in other selling and tour expense of $7.3 million and other promotional golf club expense of $3.2 million.

General and administrative expenses increased $24.5 million (37%) in 2004 to $89.9 million from $65.4 million in 2003, and were 10% and 8% of net sales, respectively. This increase was primarily due to the $12.9 million increase in Top-Flite general and administrative expenses resulting from the inclusion of a full year of Top-Flite expenses in 2004 as compared to 15 weeks of Top-Flite expenses in 2003, as well as $7.6 million of general and administrative expenses incurred in connection with the integration of the Top-Flite operations with the Callaway Golf operations. This increase was also due to an increase in legal fees of $5.4 million primarily related to the previously reported litigation with Dunlop Slazenger Group Americas, Inc. (d/b/a Maxfli) (which litigation has been resolved) and a $2.0 million increase resulting from the inclusion of seven months of FrogTrader general and administrative expenses during the year ended December 31, 2004.

Research and development expenses increased $1.1 million (4%) in 2004 to $30.6 million from $29.5 million in 2003, and were 3% and 4% of net sales in 2004 and 2003, respectively. The dollar increase was primarily due to the $3.8 million increase in Top-Flite expenses resulting from the inclusion of a full year of Top-Flite expenses in 2004 as compared to 15 weeks of Top-Flite expenses in 2003, as well as $0.9 million of research and development expenses incurred in connection with the integration of the Top-Flite operations with the Callaway Golf operations. This increase was partially offset by a $2.0 million decrease in employee costs during 2004 due to a decrease in personnel in 2004 compared to 2003.

Interest and other income decreased $1.6 million (46%) in 2004 to $1.9 million from $3.6 million in 2003. This decrease is primarily attributable to a $3.3 million decrease in foreign currency transactional gains partially offset by a $2.1 million decrease in foreign currency contract losses as well as a decrease in interest income of approximately $0.6 million as a result of a decrease in cash invested during 2004 compared to 2003.

Interest expense decreased $0.6 million (38%) in 2004 to $0.9 million compared to $1.5 million in 2003. This decrease is due to a decrease in the average amount borrowed under the Company's line of credit during 2004.

During 2004, the Company recorded an income tax benefit of $13.6 million. The income tax benefit as a percentage of loss before taxes was 57% in 2004 as compared to a provision of 33% in 2003. The 2004 effective tax rate was positively impacted by the reversal of previously accrued taxes primarily as a result of the resolution of certain tax audits. The 2003 tax rate was positively impacted by an atypical benefit related to the statutory U.S. export sales incentive.

Net income for the year ended December 31, 2004 decreased 122% to a loss of $10.1 million from income of $45.5 million in 2003. Earnings per diluted share decreased to a loss of $0.15 per share in 2004 as compared to earnings of $0.68 per share in 2003. Net income was negatively impacted by after-tax charges related to the integration of the Callaway Golf and Top-Flite operations in the amounts of $17.5 million and $16.1 million in 2004 and 2003, respectively. Earnings per share was negatively impacted by after-tax charges related to the integration of the Callaway Golf and Top-Flite operations in the amounts of $0.26 and $0.24 per share in 2004 and 2003, respectively.

Financial Condition

Cash and cash equivalents increased $17.8 million (56%) to $49.5 million at December 31, 2005 from $31.7 million at December 31, 2004. This increase in cash primarily resulted from cash provided by operating activities of $70.3 million offset by cash used in investing activities of $32.9 million and cash used in financing activities of $17.8 million. Cash flows provided by operating activities for 2005 reflected net income of $13.3 million, adjusted for depreciation and amortization of $38.3 million, a $32.7 million increase in accounts payable and accrued expenses, a $26.7 million decrease in income taxes receivable and a $7.6 million increase in accrued employee compensation benefits. These cash inflows were partially offset by a $65.6 million increase in cash paid for net inventories. Cash flows used in investing activities reflects capital expenditures of $34.3 million during 2005. Cash flows used in financing activities are primarily attributable to $19.6 million of dividends paid during 2005 as well as an increase in net payments on the Company's line of credit in the amount of $13.0 million. These increases were partially offset by the issuance of $14.8 million of Common Stock under employee benefit plans during the year.

The Company's net accounts receivable decreased $7.1 million to $98.1 million at December 31, 2005 from $105.2 million at December 31, 2004. The Company's consolidated days sales outstanding ("DSO") decreased to 59 days as of December 2005 as compared to 67 days as of December 2004. The decrease in DSO and accounts receivable balance is primarily attributable to more favorable collection terms in 2005 compared to the prior year.

The Company's net inventory increased $60.3 million to $241.6 million at December 31, 2005 from $181.2 million at December 31, 2004. This increase in inventory was anticipated and is consistent with the Company's plans to have more inventory on hand as it enters the 2006 golf season to avoid the product supply issues it experienced in 2005. This increase also reflects lower inventory levels in 2004 due to product compensation programs implemented in 2004 to stimulate retail sales.

As of December 31, 2005, the Company's net property, plant and equipment decreased $8.1 million to $127.7 million from $135.8 million at December 31, 2004. This decrease is primarily due to depreciation of $35.2 million as well as the disposal of $4.0 million of net assets during 2005. These decreases were partially offset by additions of $34.3 million during the year.

Liquidity and Capital Resources

Sources of Liquidity

The Company's principal sources of liquidity are cash flows provided by operations and the Company's credit facilities in effect from time to time. The Company currently expects this to continue. Effective January 23, 2006, the Company, Bank of America, N.A. and certain other lenders entered into an agreement (the "Second Amendment") to amend the Company's November 5, 2004 Amended and Restated Credit Agreement (as amended, the "Line of Credit") to provide for modification of the financial covenants, pricing and certain other terms. The amendment also extends the term of the Line of Credit to expire on February 5, 2011.

The Line of Credit provides for revolving loans of up to $250.0 million, although actual borrowing availability is effectively limited by the financial covenants contained therein. As of December 31, 2005, the maximum amount that could be borrowed under the Line of Credit was approximately $180.0 million, none of which was outstanding.

Under the Line of Credit, the Company is required to pay certain fees, including an unused commitment fee of between 12.5 to 27.5 basis points per annum of the unused commitment amount, with the exact amount determined based upon the Company's consolidated leverage ratio and trailing four quarters' earnings before income taxes, depreciation and amortization (EBITDA) (each as defined in the agreement governing the Line of Credit). Outstanding borrowings under the Line of Credit accrue interest, at the Company's election, based upon the Company's consolidated leverage ratio and trailing four quarters' EBITDA, of (i) the higher of (a) the Federal Funds Rate plus 50.0 basis points or (b) Bank of America's prime rate, and in either case, plus a margin of 00.0 to 25.0 basis points or (ii) the Eurodollar Rate (as defined in the agreement governing the Line of Credit) plus a margin of 62.5 to 150.0 basis points. The Company has agreed that repayment of amounts under the Line of Credit will be guaranteed by certain of the Company's domestic subsidiaries and will be secured by substantially all of the assets of the Company and such guarantor subsidiaries. The collateral (other than 65% of the stock of the Company's foreign subsidiaries) could be released upon the satisfaction of certain financial conditions.

The Line of Credit requires the Company to meet certain financial covenants, including a minimum tangible net worth covenant and includes certain other restrictions, including restrictions limiting dividends, stock repurchases, capital expenditures and asset sales. As of December 31, 2005, the Company was in compliance with the covenants and other terms of the Line of Credit, as then applicable.

The total origination fees incurred in connection with the Line of Credit were $1.3 million and are being amortized into interest expense over the remaining term of the Line of Credit agreement. Unamortized origination fees were $1.0 million as of December 31, 2005, of which $0.3 million were included in prepaid and other current assets in the accompanying consolidated balance sheet. In January 2006, the Company incurred additional fees of approximately $0.3 million in connection with the Second Amendment.

Share Repurchases

In November 2005, 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, up to a maximum cost to the Company of $50.0 million. The new stock repurchase program supersedes the May 2002 repurchase program and all prior stock repurchase authorizations. There were no repurchases under this authorization during the fourth quarter of 2005.

During 2005, the Company repurchased 3,000 shares of its Common Stock at an average cost per share of $12.36 through the withholding of shares in satisfaction of employee tax obligations related to the vesting of employee restricted stock awards. There were no share repurchases during the fourth quarter of 2005. The Company's repurchases of shares of Common Stock are recorded at average cost in Common Stock held in treasury and result in a reduction of shareholders' equity.

Other Significant Cash and Contractual Obligations

The following table summarizes certain significant cash obligations as of December 31, 2005 that will affect the Company's future liquidity (in millions):

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Operating leases[1]	10.2	5.6	4.2	0.3	0.1
Capital leases[2]	0.1	0.1	—	—	—
Unconditional purchase obligations[3]	111.9	26.4	55.4	25.9	4.2
Deferred compensation[4]	8.3	1.2	0.7	0.6	5.8
Total[5]	$130.5	$ 33.3	$ 60.3	$ 26.8	$ 10.1

(1) The Company leases certain warehouse, distribution and office facilities, vehicles and office equipment under operating leases. The amounts presented in this line item represent commitments for minimum lease payments under noncancelable operating leases and include operating leases assumed as part of the Top-Flite Acquisition.

(2) The Company acquired certain capital lease obligations as a result of the Top-Flite Acquisition primarily related to computer and telecommunications systems. The amounts presented in this line item represent commitments for minimum lease payments under noncancelable capital leases.

(3) During the normal course of its business, the Company enters into agreements to purchase goods and services, including purchase commitments for production materials, endorsement agreements with professional golfers and other endorsers, employment and consulting agreements, and intellectual property licensing agreements pursuant to which the Company is required to pay royalty fees. It is not possible to determine the amounts the Company will ultimately be required to pay under these agreements as they are subject to many variables including performance-based bonuses, reductions in payment obligations if designated minimum performance criteria are not achieved, and severance arrangements. The amounts listed approximate minimum purchase obligations, base compensation, and guaranteed minimum royalty payments the Company is obligated to pay under these agreements. The actual amounts paid under some of these agreements may be higher or lower than the amounts included. In the aggregate, the actual amount paid under these obligations is likely to be higher than the amounts listed as a result of the variable nature of these obligations. In addition, the Company also enters into unconditional purchase obligations with various vendors and suppliers of goods and services in the normal course of operations through purchase orders or other documentation or that are undocumented except for an invoice. Such unconditional purchase obligations are generally outstanding for periods less than a year and are settled by cash payments upon delivery of goods and services and are not reflected in this line item.

(4) The Company has an unfunded, nonqualified deferred compensation plan. The plan allows officers, certain other employees and directors of the Company to defer all or part of their compensation, to be paid to the participants or their designated beneficiaries upon retirement, death or separation from the Company. To support the deferred compensation plan, the Company has elected to purchase Company-owned life insurance. The cash surrender value of the Company-owned insurance related to deferred compensation is included in other assets and was $9.9 million at December 31, 2005. The liability for the deferred compensation is included in long-term liabilities and was $8.3 million at December 31, 2005.

(5) During the third quarter of 2001, the Company entered into a derivative commodity instrument to manage electricity costs in the volatile California energy market. The contract was originally effective through May 2006. During the fourth quarter of 2001, the Company notified the energy supplier that, among other things, the energy supplier was in default of the energy supply contract and that based upon such default, and for other reasons, the Company was terminating the energy supply contract. The Company continues to reflect the $19.9 million derivative valuation account on its balance sheet, subject to periodic review, in accordance with SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” The $19.9 million represents unrealized losses resulting from changes in the estimated fair value of the contract and does not represent contractual cash obligations. The Company believes the energy supply contract has been terminated and, therefore, the Company does not have any further cash obligations under the contract. Accordingly, the energy derivative valuation account is not included in the table. There can be no assurance, however, that a party will not assert a future claim against the Company or that a bankruptcy court or arbitrator will not ultimately nullify the Company’s termination of the contract. No provision has been made for contingencies or obligations, if any, under the contract beyond November 2001. See below, Note 13 “Commitments and Contingencies—Supply of Electricity and Energy Contracts.”

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company’s customers and licensees in connection with the use, sale and/or license of Company products or trademarks, (ii) indemnities to various lessors in connection with facility leases for certain claims arising from such facilities or leases, (iii) indemnities to vendors and service providers pertaining to claims based on the negligence or willful misconduct of the Company and (iv) indemnities involving the accuracy of representations and warranties in certain contracts. In addition, the Company has made contractual commitments to each of its officers and certain other employees providing for severance payments upon the termination of employment. The Company also has consulting agreements that provide for payment of nominal fees upon the issuance of patents and/or the commercialization of research results. The Company has also issued a guarantee in the form of a standby letter of credit as security for contingent liabilities under certain workers' compensation insurance policies. The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum amount of future payments the Company could be obligated to make. Historically, costs incurred to settle claims related to indemnities have not been material to the Company's financial position, results of operations or cash flows. In addition, the Company believes the likelihood is remote that material payments will be required under the commitments and guarantees described above. The fair value of indemnities, commitments and guarantees that the Company issued during the fiscal year ended December 31, 2005 was not material to the Company's financial position, results of operations or cash flows.

In addition to the contractual obligations listed above, the Company's liquidity could also be adversely affected by an unfavorable outcome with respect to claims and litigation that the Company is subject to from time to time. See Note 13 to the Company's Consolidated Financial Statements.

Sufficiency of Liquidity

Based upon its current operating plan, analysis of its consolidated financial position and projected future results of operations, the Company believes that its operating cash flows, together with its Line of Credit, will be sufficient to finance current operating requirements, planned capital expenditures, contractual obligations and commercial commitments, for the next 12 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 above, "Certain Factors Affecting Callaway Golf Company" contained in Item IA).

Capital Resources

The Company does not currently have any material commitments for capital expenditures.

Off-Balance Sheet Arrangements

At December 31, 2005 and 2004, the Company did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

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

The Company uses derivative financial instruments for hedging purposes to limit its exposure to changes in foreign currency exchange rates. Transactions involving these financial instruments are with creditworthy firms. The use of these instruments exposes the Company to market and credit risk which may at times be concentrated with certain counterparties, although counterparty nonperformance is not anticipated. The Company is also exposed to interest rate risk from its credit facility.

Foreign Currency Fluctuations

In the normal course of business, the Company is exposed to foreign currency exchange rate risks (see Note 8 to the Company's Consolidated Condensed Financial Statements) that could impact the Company's results of operations. The Company's risk management strategy includes the use of derivative financial instruments, including forwards and purchased options, to hedge certain of these exposures. The Company's objective is to offset gains and losses resulting from these exposures with gains and losses on the derivative contracts used to hedge them, thereby reducing volatility of earnings. The Company does not enter into any trading or speculative positions with regard to foreign currency related derivative instruments.

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

The Company enters into foreign exchange contracts to hedge against exposure to changes in foreign currency exchange rates. Such contracts are designated at inception to the related foreign currency exposures being hedged, which include anticipated intercompany sales of inventory denominated in foreign currencies, payments due on intercompany transactions from certain wholly-owned foreign subsidiaries, and anticipated sales by the Company's wholly owned European subsidiary for certain Euro-denominated transactions. Hedged transactions are denominated primarily in European currencies, Japanese Yen, Korean Won, Canadian Dollars and Australian Dollars. To achieve hedge accounting, contracts must reduce the foreign currency exchange rate risk otherwise inherent in the amount and duration of the hedged exposures and comply with established risk management policies. Pursuant to its foreign exchange hedging policy, the Company may hedge anticipated transactions and the related receivables and payables denominated in foreign currencies using forward foreign currency exchange rate contracts and put or call options. Foreign currency derivatives are used only to meet the Company's objectives of minimizing variability in the Company's operating results arising from foreign exchange rate movements. The Company does not enter into foreign exchange contracts for speculative purposes. Hedging contracts mature within 12 months from their inception.

At December 31, 2005, 2004 and 2003, the notional amounts of the Company's foreign exchange contracts used to hedge outstanding balance sheet exposures were approximately $35.6 million, $52.7 million and $46.8 million, respectively. At December 31, 2005 and 2004 there were no outstanding foreign exchange contracts designated as cash flow hedges. At December 31, 2003, the notional amounts of the Company's foreign exchange contracts designated as cash flow hedges were approximately $44.4 million.

As part of the Company's risk management procedure, a sensitivity analysis model is used to measure the potential loss in future earnings of market-sensitive instruments resulting from one or more selected hypothetical changes in interest rates or foreign currency values. The sensitivity analysis model quantifies the estimated potential effect of unfavorable movements of 10% in foreign currencies to which the Company was exposed at December 31, 2005 through its derivative financial instruments.

The estimated maximum one-day loss from the Company's foreign currency derivative financial instruments, calculated using the sensitivity analysis model described above, is $3.7 million at December 31, 2005. The portion of the estimated loss associated with the foreign exchange contracts that offset the remeasurement gain and loss of the related foreign currency denominated assets and liabilities is $3.7 million at December 31, 2005 and would impact earnings. 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.

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

Interest Rate Fluctuations

Additionally, the Company is exposed to interest rate risk from its Line of Credit (see Note 7 to the Company's Consolidated Financial Statements). Outstanding borrowings under the Line of Credit accrue interest at the Company's election, based upon the Company's consolidated leverage ratio and trailing four quarters EBITDA, of (i) the higher of (a) the Federal Funds Rate plus 50.0 basis points or (b) Bank of America's prime rate, and in either case plus a margin of 00.0 to 25.0 basis points or (ii) the Eurodollar Rate (as defined in the agreement governing the Line of Credit) plus a margin of 62.5 to 150.0 basis points. As of December 31, 2005, there were no outstanding borrowings under the Line of Credit.

Item 8. *Financial Statements and Supplementary Data*

The Company's consolidated financial statements as of December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005, together with the reports of our independent registered public accounting firm, are included in this Annual Report on Form 10-K on pages F-1 through F-29.

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

None.

Item 9A. *Controls and Procedures*

Disclosure Controls and Procedures. As of December 31, 2005, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information required to be included in the Company's periodic filings with the Securities and Exchange Commission.

Management's Report on Internal Control Over Financial Reporting. The Company's management is responsible for establishing and maintaining effective internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act). Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in its report entitled *Internal Control—Integrated Framework.* Based on the assessment, management believes that, as of December 31, 2005, the Company's internal control over financial reporting is effective based on those criteria.

Changes in Internal Control Over Financial Reporting. As previously reported, the Callaway Golf business information systems and the acquired Top-Flite systems were operating on different platforms. To improve the Company's business processes and increase the efficiency of the Company's reporting systems, during the fourth quarter of 2005, the Company implemented the same Enterprise Resource Planning system for its Top-Flite operations that is generally used in the Callaway Golf operations. In connection with this change in systems, the Company also changed certain internal controls to conform to the new systems. The Company believes that these changed internal controls over the new information systems were effective as of December 31, 2005. During the quarter ended December 31, 2005, there were no other changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in its report which is included herein.

Item 9B. ***Other Information***

None.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Callaway Golf Company
Carlsbad, California

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, appearing in Item 9A, that Callaway Golf Company and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2005 of the Company and our report dated February 23, 2006 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California
February 23, 2006

PART III

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

Certain information concerning the Company's executive officers is included under the caption "Executive Officers of the Registrant" following Part I, Item 4 of this Form 10-K. The other information required by Item 10 has been included in the Company's definitive Proxy Statement under the captions "Board of Directors and Corporate Governance" and "Section 16(a) Beneficial Ownership Reporting Compliance," to be filed with the Commission within 120 days after the end of fiscal year 2005 pursuant to Regulation 14A, which information is incorporated herein by this reference.

Item 11. ***Executive Compensation***

The Company maintains employee benefit plans and programs in which its executive officers are participants. Copies of certain of these plans and programs are set forth or incorporated by reference as Exhibits to this report. Information required by Item 11 is included in the Company's definitive Proxy Statement under the captions "Compensation of Executive Officers," "Report of the Compensation and Management Succession Committee on Executive Compensation," "Performance Graph" and "Board of Directors and Corporate Governance," to be filed with the Commission within 120 days after the end of fiscal year 2005 pursuant to Regulation 14A, which information is incorporated herein by this reference.

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

The information required by Item 12 is included in Item 5 of this report and the Company's definitive Proxy Statement under the caption "Beneficial Ownership of the Company's Securities," to be filed with the Commission within 120 days after the end of fiscal year 2005 pursuant to Regulation 14A, which information is incorporated herein by this reference.

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

The information required by Item 13 is included in the Company's definitive Proxy Statement under the caption "Compensation of Executive Officers—Compensation Committee Interlocks and Insider Participation," to be filed with the Commission within 120 days after the end of fiscal year 2005 pursuant to Regulation 14A, which information is incorporated herein by this reference.

Item 14. ***Principal Accountant Fees and Services***

The information included in Item 14 is included in the Company's definitive Proxy Statement under the caption "Information Concerning Independent Registered Public Accounting Firm" to be filed with the Commission within 120 days after the end of fiscal year 2005 pursuant to Regulation 14A, which information is incorporated herein by this reference.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

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

1. *Financial Statements.* The following consolidated financial statements of Callaway Golf Company and its subsidiaries required to be filed pursuant to Part II, Item 8 of this Form 10-K, are included in this Annual Report on Form 10-K on pages F-1 through F-37:

Consolidated Balance Sheets as of December 31, 2005 and 2004;

Consolidated Statements of Operations for the years ended December 31, 2005, 2004 and 2003;

Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003;

Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended December 31, 2005, 2004 and 2003;

Notes to Consolidated Financial Statements; and

Report of Independent Registered Public Accounting Firm.

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

Schedule II—Consolidated Valuation and Qualifying Accounts; and

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

3. *Exhibits.*

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

3.1	Certificate of Incorporation, incorporated herein by this reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission ("Commission") on July 1, 1999 (file no. 1-10962).
3.2	Third Amended and Restated Bylaws, as amended and restated as of December 3, 2003, incorporated herein by this reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the Commission on March 15, 2004 (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).
	Executive Compensation Contracts/Plans
10.1	Executive Officer Employment Agreement, entered into as of July 29, 2005, between the Company and George Fellows, incorporated herein by this reference in Exhibit 10.55 to the Company's Current Report on the Form 8-K, as filed with the Commission on August 4, 2005 (file no. 1-10962).

10.2	Restricted Stock Grant Agreement, effective as of August 1, 2005, between the Company and George Fellows, incorporated herein by this reference to Exhibit 10.58 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, as filed with the Commission on October 27, 2005 (file no. 1-10962).
10.3	Notice of Grant of Stock Option and Option Agreement, effective as of August 1, 2005, between the Company and George Fellows, incorporated herein by this reference to Exhibit 10.59 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, as filed with the Commission on October 27, 2005 (file no. 1-10962).
10.4	Executive Officer Employment Agreement, entered into as of December 20, 2005, between the Company and Steven C. McCracken, incorporated herein by this reference in Exhibit 10.60 to the Company's Current Report on the Form 8-K, as filed with the Commission on December 22, 2005 (file no. 1-10962).
10.5	Executive Officer Employment Agreement, entered into as of December 20, 2005, between the Company and Bradley J. Holiday, incorporated herein by this reference in Exhibit 10.61 to the Company's Current Report on the Form 8-K, as filed with the Commission on December 22, 2005 (file no. 1-10962).
10.6	Executive Officer Employment Agreement, entered into as of December 20, 2005, between the Company and Robert A. Penicka, incorporated herein by this reference in Exhibit 10.62 to the Company's Current Report on the Form 8-K, as filed with the Commission on December 22, 2005 (file no. 1-10962).
10.7	First Amendment to Executive Officer Employment Agreement, dated April 1, 2003, between the Company and Richard C. Helmstetter, incorporated herein by this reference to Exhibit 10.49 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, as filed with the Commission on May 7, 2003 (file no. 1-10962).
10.8	Executive Officer Employment Agreement, entered into as of January 1, 1998, between the Company and Richard C. Helmstetter, incorporated herein by this reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, as filed with the Commission on March 31, 1998 (file no. 1-10962).
10.9	Compensation Agreement between the Company and William C. Baker, incorporated herein by this reference to Exhibit 10.49 to the Company's Current Report on Form 8-K, as filed with the Commission on January 24, 2005 (file no. 1-10962).
10.10	Notice of Grant of Stock Option and Option Agreement between the Company and William C. Baker, incorporated herein by this reference to Exhibit 10.50 to the Company's Current Report on Form 8-K, as filed with the Commission on January 24, 2005 (file no. 1-10962).
10.11	Separation Agreement, entered into on October 28, 2004, between the Company and Ronald A. Drapeau, incorporated herein by this reference to Exhibit 10.47 to the Company's Current Report on Form 8-K, as filed with the Commission on October 29, 2004 (file no. 1-10962).
10.12	Second Amendment to Second Amended Executive Officer Employment Agreement, effective as of September 15, 2003, between the Company and Ronald A. Drapeau, incorporated herein by this reference to Exhibit 10.60 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, as filed with the Commission on November 14, 2003 (file no. 1-10962).
10.13	First Amendment to Second Amended Executive Officer Employment Agreement, dated March 1, 2003, between the Company and Ronald A. Drapeau, incorporated herein by this reference to Exhibit 10.48 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, as filed with the Commission on May 7, 2003 (file no. 1-10962).

10.14	Second Amended Executive Officer Employment Agreement, effective as of June 1, 2002, between the Company and Ronald A. Drapeau, incorporated herein by this reference to Exhibit 10.53 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, as filed with the Commission on August 14, 2002 (file no. 1-10962).
10.15	Separation Agreement, entered into on February 24, 2005, between the Company and Patrice Hutin, incorporated herein by this reference to Exhibit 10.52 to the Company's Current Report on Form 8-K, as filed with the Commission on March 1, 2005 (file no. 1-10962).
10.16	Second Amendment to Executive Officer Employment Agreement, effective September 15, 2003, between the Company and Patrice Hutin, incorporated herein by this reference to Exhibit 10.63 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, as filed with the Commission on November 14, 2003 (file no. 1-10962).
10.17	First Amendment to Executive Officer Employment Agreement, dated March 1, 2003, between the Company and Patrice Hutin, incorporated herein by this reference to Exhibit 10.52 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, as filed with the Commission on May 7, 2003 (file no. 1-10962).
10.18	Executive Officer Employment Agreement, effective November 6, 2002, between the Company and Patrice Hutin, incorporated herein by this reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the Commission on March 17, 2003 (file no. 1-10962).
10.19	Form of Stock Option Grant for Officers.†
10.20	Form of Restricted Stock Grant for Officers.†
10.21	Form of Performance Unit Grant for Officers.†
10.22	Form of Notice of Grant of Stock Option and Option Agreement for Non-Employee Directors, incorporated herein by this reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 10, 2005 (file no. 1-10962).
10.23	Callaway Golf Company 2004 Equity Incentive Plan, incorporated herein by this reference to Exhibit B to the Company's definitive Proxy Statement on Schedule 14A filed with the Commission on April 20, 2004 (file no. 1-10962).
10.24	Callaway Golf Company 2001 Non-Employee Directors Stock Option Plan, incorporated herein by this reference to Appendix A to the Company's definitive Proxy Statement on Schedule 14A filed with the Commission on March 27, 2000 (file no. 1-10962).
10.25	Callaway Golf Company Non-Employee Directors Stock Option Plan (as amended and restated August 15, 2000), incorporated herein by this reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 21, 2002 (file no. 1-10962).
10.26	Callaway Golf Company 1998 Stock Incentive Plan (as amended and restated August 15, 2000), incorporated herein by this reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 21, 2002 (file no. 1-10962).
10.27	Amended and Restated 1996 Stock Option Plan (as amended and restated May 3, 2000), incorporated herein by this reference to Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2000, as filed with the Commission on August 14, 2000 (file no. 1-10962).

10.28	Callaway Golf Company 1995 Stock Incentive Plan (as amended and restated November 7, 2001), incorporated herein by this reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the Commission on March 17, 2003 (file no. 1-10962).
10.29	Callaway Golf Company 1991 Stock Incentive Plan (as amended and restated August 2000), incorporated herein by this reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 21, 2002 (file no. 1-10962).
10.30	2005 Callaway Golf Company Executive Deferred Compensation Plan (Master Plan Document).†
10.31	Callaway Golf Company Executive Deferred Compensation Plan, as amended and restated, effective May 6, 2002, incorporated herein by this reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 10, 2005 (file no. 1-10962).
10.32	Trust Agreement for the Callaway Golf Company Executive Deferred Compensation Plans.†
10.33	Callaway Golf Company Employee Stock Purchase Plan (as Amended and Restated Effective as of February 1, 2006).†
10.34	Indemnification Agreement, dated April 7, 2004, between the Company and Anthony S. Thornley, incorporated herein by this reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 10, 2005 (file no. 1-10962).
10.35	Indemnification Agreement, dated as of April 21, 2003, between the Company and Samuel H. Armacost, incorporated herein by this reference to Exhibit 10.57 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, as filed with the Commission on August 7, 2003 (file no. 1-10962).
10.36	Indemnification Agreement, dated as of April 21, 2003, between the Company and John C. Cushman, III, incorporated herein by this reference to Exhibit 10.58 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, as filed with the Commission on August 7, 2003 (file no. 1-10962).
10.37	Indemnification Agreement, effective June 7, 2001, between the Company and Ronald S. Beard, incorporated herein by this reference to Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, as filed with the Commission on November 14, 2001 (file no. 1-10962).
10.38	Indemnification Agreement, dated as of July 1, 1999, between the Company and William C. Baker, incorporated herein by this reference to Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).
10.39	Indemnification Agreement, dated July 1, 1999, between the Company and Yotaro Kobayashi, incorporated herein by this reference to Exhibit 10.30 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).
10.40	Indemnification Agreement, dated July 1, 1999, between the Company and Richard L. Rosenfield, incorporated herein by this reference to Exhibit 10.32 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).

Other Contracts

10.41	Second Amendment to Amended and Restated Credit Agreement dated as of January 23, 2006 between the Company, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, and the other lenders party to the Amended and Restated Credit Agreement dated November 5, 2004, incorporated herein by this reference to Exhibit 10.60 to the Company's Current Report on Form 8-K, dated as of January 23, 2006, as filed with the Commission on January 27, 2006 (file no. 1-10962).
10.42	First Amendment to Amended and Restated Credit Agreement, dated as of March 31, 2005, between the Company, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, and the other lenders party to the Amended and Restated Credit Agreement dated November 5, 2004, incorporated herein by this reference to Exhibit 10.54 to the Company's Current Report on Form 8-K, dated as of March 31, 2005, as filed with the Commission on April 6, 2005 (file no. 1-10962).
10.43	Amended and Restated Credit Agreement, dated as of November 5, 2004, between the Company and Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, Banc of America Securities LLC, as Sole Lead Manager and Sole Book Manager, and the other lenders party to the Amended and Restated Credit Agreement, incorporated herein by this reference to Exhibit 10.48 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, as filed with the Commission on November 9, 2004 (file no. 1-10962).
10.44	Credit Agreement, dated as of November 10, 2003, between the Company and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, Banc of America Securities LLC, as Sole Lead Manager and Sole Book Manager, and the other lenders party to the Credit Agreement, incorporated herein by this reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the Commission on March 15, 2004 (file no. 1-10962).
10.45	Pledge Agreement, dated November 10, 2003, by and between the Company and Bank of America, N.A., as Administrative Agent, incorporated herein by this reference to Exhibit 10.38 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the Commission on March 15, 2004 (file no. 1-10962).
10.46	Master Energy Purchase and Sale Agreement and related Confirmation letter, each entered into as of April 12, 2001, between the Company and Enron Energy Services, Inc., incorporated herein by this reference to Exhibit 10.34 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, as filed with the Commission on August 14, 2001 (file no. 1-10962).
10.47	Amendment No. 3 to Trust Agreement, effective as of November 1, 2005, by the Company with the consent of Union Bank of California, N.A.†
10.48	Amendment No. 2 to Trust Agreement, effective as of October 21, 2004, by the Company with the consent of Arrowhead Trust Incorporated, incorporated herein by this reference to Exhibit 10.50 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 10, 2005 (file no. 1-10962).
10.49	Amendment No. 1 to Trust Agreement, effective as of June 29, 2001, by the Company with the consent of Arrowhead Trust Incorporated, incorporated herein by this reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 21, 2002 (file no. 1-10962).
10.50	Assignment and Assumption Agreement, effective as of January 1, 2006, among the Company, Arrowhead Trust Incorporated and Union Bank of California, N.A.†

10.51	Assignment and Assumption Agreement, effective as of April 24, 2000, among the Company, Sanwa Bank California and Arrowhead Trust Incorporated, incorporated herein by reference to Exhibit 10.47 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (file no. 1-10962).
10.55	Trust Agreement, dated July 14, 1995, between the Company and Sanwa Bank California, as Trustee, for the benefit of participating employees, incorporated herein by this reference to Exhibit 10.45 to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, as filed with the Commission on November 14, 1995 (file no. 1-10962).
21.1	List of Subsidiaries.†
23.1	Consent of Deloitte & Touche LLP.†
24.1	Form of Limited Power of Attorney.†
31.1	Certification of George Fellows pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.†
31.2	Certification of Bradley J. Holiday pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.†
32.1	Certification of George Fellows and Bradley J. Holiday pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†

† Included in this Report

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SIGNATURES

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

CALLAWAY GOLF COMPANY

By: /s/ GEORGE FELLOWS
George Fellows
President and Chief Executive Officer

Date: February 23, 2006

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

Signature	Title	Dated as of
Principal Executive Officer:		
/s/ GEORGE FELLOWS **George Fellows**	President and Chief Executive Officer, Director	February 23, 2006
Principal Financial Officer and Principal Accounting Officer:		
/s/ BRADLEY J. HOLIDAY **Bradley J. Holiday**	Senior Executive Vice President and Chief Financial Officer	February 23, 2006
Directors:		
* **Samuel H. Armacost**	Director	February 23, 2006
* **Ronald S. Beard**	Chairman of the Board	February 23, 2006
* **John C. Cushman, III**	Director	February 23, 2006
* **Yotaro Kobayashi**	Director	February 23, 2006
* **Richard L. Rosenfield**	Director	February 23, 2006
* **Anthony S. Thornley**	Director	February 23, 2006

*By: /s/ BRADLEY J. HOLIDAY
Bradley J. Holiday
Attorney-in-fact

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Callaway Golf Company
Carlsbad, California

We have audited the accompanying consolidated balance sheets of Callaway Golf Company and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of operation, shareholder's equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedules listed in the Index at Item (15)a2. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Callaway Golf Company and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California
February 23, 2006

CALLAWAY GOLF COMPANY

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

	December 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 49,481	$ 31,657
Accounts receivable, net	98,082	105,153
Inventories, net	241,577	181,230
Deferred taxes	38,192	32,959
Income taxes receivable	2,026	28,697
Other current assets	9,232	14,036
Total current assets	438,590	393,732
Property, plant and equipment, net	127,739	135,865
Intangible assets, net	146,123	149,168
Goodwill	29,068	30,468
Deferred taxes	6,516	9,837
Other assets	16,462	16,667
	$ 764,498	$ 735,737
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 102,134	$ 75,501
Accrued employee compensation and benefits	24,783	20,215
Accrued warranty expense	13,267	12,043
Bank line of credit	—	13,000
Capital leases, current portion	21	39
Total current liabilities	140,205	120,798
Long-term liabilities:		
Deferred compensation	8,323	8,674
Energy derivative valuation account	19,922	19,922
Capital leases, net of current portion	—	26
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at December 31, 2005 and 2004	—	—
Common Stock, $.01 par value, 240,000,000 shares authorized, 84,950,694 shares and 84,785,694 shares issued at December 31, 2005 and 2004, respectively	850	848
Additional paid-in capital	393,676	387,950
Unearned compensation	(9,014)	(12,562)
Retained earnings	430,996	437,269
Accumulated other comprehensive income	3,377	11,081
Less: Grantor Stock Trust held at market value, 5,954,747 shares and 7,176,678 shares at December 31, 2005 and 2004, respectively	(82,414)	(96,885)
Less: Common Stock held in treasury, at cost, 8,500,811 shares and 8,497,667 shares at December 31, 2005 and 2004, respectively	(141,423)	(141,384)
Total shareholders' equity	596,048	586,317
	$ 764,498	$ 735,737

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

CALLAWAY GOLF COMPANY

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

	Year Ended December 31,					
	2005		2004		2003	
Net sales	$998,093	100%	$934,564	100%	$814,032	100%
Cost of sales	583,679	58%	575,742	62%	445,417	55%
Gross profit	414,414	42%	358,822	38%	368,615	45%
Selling expenses	290,074	29%	263,089	28%	207,783	26%
General and administrative expenses	80,145	8%	89,878	10%	65,448	8%
Research and development expenses	26,989	3%	30,557	3%	29,529	4%
Total operating expenses	397,208	40%	383,524	41%	302,760	37%
Income (loss) from operations	17,206	2%	(24,702)	(3)%	65,855	8%
Interest and other income (expense), net	(390)		1,934		3,550	
Interest expense	(2,279)		(945)		(1,522)	
Income (loss) before income taxes	14,537	1%	(23,713)	(3)%	67,883	8%
Provision for (benefit from) income taxes	1,253		(13,610)		22,360	
Net income (loss)	$ 13,284	1%	$ (10,103)	(1)%	$ 45,523	6%
Earnings (loss) per common share:						
Basic	$ 0.19		$ (0.15)		$ 0.69	
Diluted	$ 0.19		$ (0.15)		$ 0.68	
Common equivalent shares:						
Basic	68,646		67,721		66,027	
Diluted	69,239		67,721		66,471	

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

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CALLAWAY GOLF COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31, 2005	2004	2003
Cash flows from operating activities:			
Net income (loss)	$ 13,284	$(10,103)	$ 45,523
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	38,260	51,154	44,496
Loss on disposal of long-lived assets	4,031	7,669	24,163
Tax benefit (reversal of benefit) from exercise of stock options	2,408	2,161	(982)
Noncash compensation	6,527	1,741	15
Net noncash foreign currency hedging loss	—	1,811	2,619
Net loss from sale of marketable securities	—	—	98
Deferred taxes	(3,906)	7,707	(8,320)
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	2,296	(1,048)	12,698
Inventories, net	(65,595)	10,299	4,897
Other assets	7,583	1,554	(4,743)
Accounts payable and accrued expenses	32,740	(16,945)	(2,561)
Accrued employee compensation and benefits	5,121	(5,895)	(3,898)
Accrued warranty expense	1,224	(584)	(838)
Income taxes receivable and payable	26,676	(40,711)	4,004
Deferred compensation	(351)	(273)	1,572
Net cash provided by operating activities	70,298	8,537	118,743
Cash flows from investing activities:			
Capital expenditures	(34,259)	(25,986)	(7,810)
Proceeds from sale of capital assets	1,363	431	178
Acquisitions, net of cash acquired	—	(9,204)	(160,321)
Proceeds from sale of marketable securities	—	—	24
Net cash used in investing activities	(32,896)	(34,759)	(167,929)
Cash flows from financing activities:			
Issuance of Common Stock	14,812	20,311	17,994
Acquisition of Treasury Stock	(39)	(6,298)	(4,755)
Proceeds from (payments on) Line of Credit, net	(13,000)	13,000	—
Dividends paid, net	(19,557)	(19,069)	(18,536)
Other financing activities	(44)	—	(8,117)
Net cash (used in) provided by financing activities	(17,828)	7,944	(13,414)
Effect of exchange rate changes on cash and cash equivalents	(1,750)	2,595	1,488
Net increase (decrease) in cash and cash equivalents	17,824	(15,683)	(61,112)
Cash and cash equivalents at beginning of year	31,657	47,340	108,452
Cash and cash equivalents at end of year	$ 49,481	$ 31,657	$ 47,340
Supplemental disclosures (See Note 3 for acquisition-related disclosures):			
Cash paid for interest and fees	$ (2,096)	$ (1,384)	$ (835)
Cash paid for income taxes	$(24,837)	$(17,379)	$ (30,925)

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

CALLAWAY GOLF COMPANY

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

	Common Stock		Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Grantor Stock Trust	Treasury Stock		Total	Comprehensive Income (Loss)
	Shares	Amount						Shares	Amount		
Balance, December 31, 2002	83,577	$ 836	$ 371,496	$ (15)	$ 439,454	$ (3,847)	$(134,206)	(7,772)	$(130,331)	$543,387	
Exercise of stock options	133	1	(900)	—	—	—	14,650	—	—	13,751	
Reversal of tax benefit from exercise of stock options	—	—	(982)	—	—	—	—	—	—	(982)	
Acquisition of Treasury Stock	—	—	—	—	—	—	—	(373)	(4,755)	(4,755)	
Compensatory stock and stock options	—	—	—	15	—	—	—	—	—	15	
Employee stock purchase plan	—	—	(851)	—	—	—	5,094	—	—	4,243	
Cash dividends	—	—	—	—	(21,160)	—	—	—	—	(21,160)	
Dividends on shares held by Grantor Stock Trust	—	—	—	—	2,624	—	—	—	—	2,624	
Adjustment of Grantor Stock Trust shares to market value	—	—	32,176	—	—	—	(32,176)	—	—	—	
Equity adjustment from foreign currency translation	—	—	—	—	—	7,396	—	—	—	7,396	$ 7,396
Unrealized loss on cash flow hedges, net of tax	—	—	—	—	—	(751)	—	—	—	(751)	(751)
Unrealized gain on marketable securities, net of tax	—	—	—	—	—	92	—	—	—	92	92
Net income	—	—	—	—	45,523	—	—	—	—	45,523	45,523
Balance, December 31, 2003	83,710	$ 837	$ 400,939	$ —	$ 466,441	$ 2,890	$(146,638)	(8,145)	$(135,086)	$589,383	$ 52,260
Exercise of stock options	23	—	(3,532)	—	—	—	19,186	—	—	15,654	
Tax benefit from exercise of stock options	—	—	2,161	—	—	—	—	—	—	2,161	
Issuance of Restricted Common Stock	1,053	11	14,290	(14,301)	—	—	—	—	—	—	
Acquisition of Treasury Stock	—	—	—	—	—	—	—	(353)	(6,298)	(6,298)	
Compensatory stock and stock options	—	—	2	1,739	—	—	—	—	—	1,741	
Employee stock purchase plan	—	—	(1,302)	—	—	—	5,959	—	—	4,657	
Cash dividends	—	—	—	—	(21,176)	—	—	—	—	(21,176)	
Dividends on shares held by Grantor Stock Trust	—	—	—	—	2,107	—	—	—	—	2,107	
Adjustment of Grantor Stock Trust shares to market value	—	—	(24,608)	—	—	—	24,608	—	—	—	
Equity adjustment from foreign currency translation	—	—	—	—	—	4,252	—	—	—	4,252	$ 4,252
Unrealized gain on cash flow hedges, net of tax	—	—	—	—	—	3,939	—	—	—	3,939	3,939
Net loss	—	—	—	—	(10,103)	—	—	—	—	(10,103)	(10,103)
Balance, December 31, 2004	84,786	$ 848	$ 387,950	$ (12,562)	$ 437,269	$ 11,081	$ (96,885)	(8,498)	$(141,384)	$586,317	$ (1,912)
Exercise of stock options	5	—	(1,452)	—	—	—	12,349	—	—	10,897	
Tax benefit from exercise of stock options	—	—	2,408	—	—	—	—	—	—	2,408	
Issuance of Restricted Common Stock	160	2	2,387	(2,389)	—	—	—	—	—	—	
Acquisition of Treasury Stock	—	—	—	—	—	—	—	(3)	(39)	(39)	
Compensatory stock and stock options	—	—	590	5,937	—	—	—	—	—	6,527	
Employee stock purchase plan	—	—	(1,432)	—	—	—	5,347	—	—	3,915	
Cash dividends	—	—	—	—	(19,557)	—	—	—	—	(19,557)	
Adjustment of Grantor Stock Trust shares to market value	—	—	3,225	—	—	—	(3,225)	—	—	—	
Equity adjustment from foreign currency translation	—	—	—	—	—	(5,724)	—	—	—	(5,724)	$ (5,724)
Unrealized loss on cash flow hedges, net of tax	—	—	—	—	—	(1,980)	—	—	—	(1,980)	(1,980)
Net income	—	—	—	—	13,284	—	—	—	—	13,284	13,284
Balance, December 31, 2005	84,951	$ 850	$ 393,676	$ (9,014)	$ 430,996	$ 3,377	$ (82,414)	(8,501)	$(141,423)	$596,048	$ 5,580

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

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Company

Callaway Golf Company ("Callaway Golf" or the "Company"), a Delaware corporation, together with its subsidiaries, designs, manufactures and sells high quality golf clubs (drivers, fairway woods, hybrids, irons, wedges and putters) and golf balls. The Company also sells golf accessories such as footwear, golf bags, golf gloves, golf headwear, golf towels and golf umbrellas. The Company generally sells its products to golf retailers (including pro shops at golf courses and off course retailers), sporting goods retailers and mass merchants, directly and through its wholly owned subsidiaries, and to third party distributors in the United States and in over 100 countries around the world. The Company also sells pre-owned Callaway Golf products through its website, www.callawaygolfpreowned.com. In addition, the Company licenses its name for apparel, footwear, watches, travel gear, eyewear and other golf accessories.

Note 2. Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Callaway Golf Company and its domestic and foreign subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

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

Revenue Recognition

Sales are recognized in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements," as products are shipped to customers, net of an allowance for sales returns and sales programs. The criteria for recognition of revenue are when persuasive evidence that an arrangement exists, delivery has occurred and both title and risk of loss have passed to the customer, the price is fixed or determinable and collectability is reasonably assured. Sales returns are estimated based upon historical returns, current economic trends, changes in customer demands and sell-through of products. The Company also records estimated reductions to revenue for sales programs such as incentive offerings. Sales program accruals are estimated based upon the attributes of the sales program, management's forecast of future product demand, and historical customer participation in similar programs.

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

Royalty income is recorded as underlying product sales occur, subject to certain minimums, in accordance with the related licensing arrangements (see Note 15). Royalty income for 2005, 2004 and 2003 was $7,080,000, $4,132,000 and $2,703,000, respectively.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Warranty Policy

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

	Year Ended December 31,		
	2005	2004	2003
		(In thousands)	
Beginning balance	$12,043	$ 12,627	$ 13,464
Provision	10,965	10,930	11,752
Claims paid/costs incurred	(9,741)	(11,514)	(12,589)
Ending balance	$13,267	$ 12,043	$ 12,627

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, trade receivables and payables, forward foreign currency exchange contracts (see Note 8) and its financing arrangements (see Note 7). The carrying amounts of these instruments approximate fair value because of their short-term maturities and variable interest rates.

Advertising Costs

The Company advertises primarily through television and print media. The Company's policy is to expense advertising costs, including production costs, as incurred. Advertising expenses for 2005, 2004 and 2003 were $60,404,000, $56,585,000 and $44,770,000, respectively.

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs for 2005, 2004 and 2003 were $26,989,000, $30,557,000 and $29,529,000, respectively.

Foreign Currency Translation and Transactions

The Company's foreign subsidiaries utilize their local currency as their functional currency. The accounts of these foreign subsidiaries have been translated into United States dollars using the current exchange rate at the balance sheet date for assets and liabilities and at the average exchange rate for the period for revenues and expenses. Cumulative translation gains or losses are recorded as accumulated other comprehensive income in shareholders' equity. Gains or losses resulting from transactions that are made in a currency different from the functional currency are recognized in earnings as they occur or, for hedging contracts, when the underlying hedged transaction affects earnings. The Company recorded net foreign currency transaction losses of $2,441,000 in 2005 and net foreign currency transaction gains of $744,000 and $1,567,000 in 2004 and 2003, respectively, in interest and other income, net.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Derivatives and Hedging

The Company enters into derivative financial instrument contracts only for hedging purposes and accounts for them in accordance with Statement of Financial Accounting Standard ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities," and its amendments SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of SFAS No. 133," SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" and SFAS No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities." The purpose of these derivative instruments is to minimize the variability of cash flows associated with the anticipated transactions being hedged. As changes in foreign currency rates impact the United States dollar value of anticipated transactions, the fair value of the forward contracts also changes, offsetting foreign currency rate fluctuations. Changes in the fair value of derivatives are recorded each period in income or other comprehensive income, depending on whether the derivatives are designated as hedges and, if so, the types and effectiveness of hedges. Additional information about the Company's use of derivative instruments is presented in Note 8.

Earnings Per Common Share

Basic earnings per common share is calculated by dividing net income for the period by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income for the period by the sum of the weighted-average number of common shares outstanding during the period, plus the number of potentially dilutive common shares ("dilutive securities") that were outstanding during the period. Dilutive securities include shares owned by the Callaway Golf Company Grantor Stock Trust, options granted pursuant to the Company's stock option plans, potential shares related to the Employee Stock Purchase Plan and Restricted Stock grants to employees and non-employees (see Note 10). Dilutive securities related to the Callaway Golf Company Grantor Stock Trust and the Company's stock option plans are included in the calculation of diluted earnings per common share using the treasury stock method. Under the treasury stock method, the dilutive securities related to the Callaway Golf Company Grantor Stock Trust do not have any impact upon the diluted earnings per common share. Dilutive securities related to the Employee Stock Purchase Plan are calculated by dividing the average withholdings during the period by 85% of the lower of the offering period price or the market value at the end of the period. Potentially dilutive securities are excluded from the computation of earnings per share in periods in which a net loss is reported, as their effect would be antidilutive. A reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations for the years ended December 31, 2005, 2004 and 2003 is presented in Note 9.

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

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

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. The inventory balance, which includes material, labor and manufacturing overhead costs, is recorded net of an estimated allowance for obsolete or unmarketable inventory. The estimated allowance for obsolete or unmarketable inventory is based upon management's understanding of market conditions and forecasts of future product demand, all of which are subject to change. If actual charges for obsolescence or unmarketable inventory significantly exceed the estimated allowance, the Company's operating results would be significantly adversely affected.

Property, Plant and Equipment

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

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

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

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

During the fourth quarter of 2003, in connection with the Top-Flite Acquisition (see Note 3), the Company began consolidating the Callaway Golf and Top-Flite golf club and golf ball manufacturing and research and development operations. In connection with this consolidation, the Company disposed of certain long-lived assets. As a result, the Company reduced the carrying value of its golf ball assets and therefore incurred pre-tax charges to earnings in the amounts of $5,290,000, $14,219,000 and $24,080,000 during 2005, 2004 and 2003, respectively.

Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company assesses potential impairments of its long-lived assets whenever events or changes in circumstances indicate that the asset's carrying value may not be recoverable. An impairment loss would be recognized when the carrying amount of a long-lived asset or asset group is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group.

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Goodwill and Intangible Assets

Goodwill and intangible assets consist of goodwill, trade name, trademark, trade dress, patents and other intangible assets acquired during the acquisition of Odyssey Sports, Inc., the Top-Flite assets, FrogTrader, Inc. and certain foreign distributors. See Note 3 for further discussion of the intangible assets acquired in connection with the FrogTrader and Top-Flite Acquisitions.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and intangible assets with indefinite lives are not amortized but instead are measured for impairment at least annually, or when events indicate that an impairment exists. The Company calculates impairment as the excess of the carrying value of its indefinite-lived intangible assets over their estimated fair value. If the carrying value exceeds the estimate of fair value a write-down is recorded.

Intangible assets that are determined to have definite lives are amortized over their useful lives and are measured for impairment only when events or circumstances indicate the carrying value may be impaired in accordance with SFAS No. 144 discussed above. See Note 6 for further discussion of the Company's goodwill and intangible assets.

Stock-Based Compensation

The Company has stock-based compensation plans, which are described in Note 10. The Company accounts for its stock-based employee compensation plans using the recognition and measurement principles (intrinsic value method) of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Company accounts for its stock-based non-employee compensation plans using SFAS No. 123, "Accounting for Stock-Based Compensation." All employee stock option awards were granted with an exercise price equal to the market value of the underlying Common Stock on the date of grant and no compensation cost is reflected in net income for those awards. For the years ended December 31, 2005, 2004 and 2003, the Company recorded compensation expense of $6,527,000, $1,741,000 and $15,000, respectively, in operating income as a result of restricted stock awards and certain options to purchase shares of stock granted to employees, officers, professional endorsers and consultants of the Company. Pro forma disclosures of net income (loss) and earnings (loss) per share, as if the fair value-based recognition provisions of SFAS No. 123 had been applied in measuring stock-based employee compensation expense, are as follows:

	Year Ended December 31,		
	2005	2004	2003
		(In thousands, except per share data)	
Net income (loss), as reported	$13,284	$(10,103)	$45,523
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	379	84	10
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(6,078)	(6,605)	(9,839)
Pro forma net income (loss)	$ 7,584	$(16,624)	$35,694
Earnings (loss) per Common Share:			
Basic—as reported	$ 0.19	$ (0.15)	$ 0.69
Basic—pro forma	$ 0.11	$ (0.25)	$ 0.54
Diluted—as reported	$ 0.19	$ (0.15)	$ 0.68
Diluted—pro forma	$ 0.11	$ (0.25)	$ 0.54

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The pro forma amounts reflected above may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense as the options vest and additional options may be granted in future years. The fair value of employee stock options was estimated at the date of grant using the Black-Scholes option-pricing model with the assumptions included in the table below. The pro forma expense includes the fair value of the Company's shares issued under its Employee Stock Purchase Plan using similar assumptions as those in the table below and an expected life of 6 to 12 months.

	Year Ended December 31,		
	2005	2004	2003
Dividend yield	2.0%	1.9%	1.7%
Expected volatility	42.4%	42.6%	46.1%
Risk free interest rates	4.2%	2.9%	2.6%
Expected lives	3-4 years	3-4 years	3-4 years

The weighted-average grant-date fair value of options granted during 2005, 2004 and 2003 was $4.78, $4.80 and $6.74 per share, respectively. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. The Company's employee stock options, however, have characteristics significantly different from those of traded options. For example, employee stock options are generally subject to vesting restrictions and are generally not transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility and the expected life of an option. Changes in subjective input assumptions can materially affect the fair value estimates of an option. Furthermore, the estimated fair value of an option does not necessarily represent the value that will ultimately be realized by an employee.

Income Taxes

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

Deferred taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries since such amounts are expected to be reinvested indefinitely. The Company provides a valuation allowance for its deferred tax assets when, in the opinion of management, it is more likely than not that such assets will not be realized (see Note 12).

Interest and Other Income, Net

Interest and other income, net primarily includes gains and losses on foreign currency transactions, interest income and gains and losses on investments to fund the deferred compensation plan. The components of interest and other income, net are as follows:

	Year Ended December 31,		
	2005	2004	2003
		(In thousands)	
Foreign currency gains (losses)	$(2,441)	$ 744	$1,567
Interest income	900	745	1,098
Gains on deferred compensation plan assets	1,209	360	888
Other	(58)	85	(3)
	$ (390)	$1,934	$3,550

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Other Accumulated Comprehensive Income (Loss)

Components of comprehensive income (loss) are reported in the financial statements in the period in which they are recognized. The components of comprehensive income for the Company include net income, unrealized gains or losses on cash flow hedges and foreign currency translation adjustments. Since the Company has met the indefinite reversal criteria, it does not accrue income taxes on foreign currency translation adjustments. During 2005, no gains or losses were reclassified to earnings as a result of the discontinuance of cash flow hedges. The components of accumulated other comprehensive income (loss) are as follows:

	Year Ended December 31,		
	2005	2004	2003
		(In thousands)	
Unrealized gain (loss) on cash flow hedges	$ 290	$ 2,270	$(1,669)
Equity adjustment from foreign currency translation	3,087	8,811	4,559
	$3,377	$11,081	$ 2,890

Segment Information

The Company's operating segments are organized on the basis of products and consist of Golf Clubs and Golf Balls. The Golf Clubs segment consists primarily of Callaway Golf, Top-Flite and Ben Hogan woods, hybrids, irons, wedges and putters as well as Odyssey putters, pre-owned clubs, other golf-related accessories and royalty and other income. The Golf Balls segment consists primarily of Callaway Golf, Top-Flite and Ben Hogan golf balls that are designed, manufactured and sold by the Company. The Company also discloses information about geographic areas. This information is presented in Note 14.

Diversification of Credit Risk

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

The Company historically invests its excess cash in money market accounts and U.S. Government securities and has established guidelines relative to diversification and maturities in an effort to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

The Company operates in the golf equipment industry and primarily sells its products to golf equipment retailers (including pro shops at golf courses and off course retailers), sporting goods retailers and mass merchants, directly and through wholly-owned domestic and foreign subsidiaries, and to foreign distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from these customers. The Company maintains reserves for estimated credit losses, which it considers adequate to cover any such losses. Managing customer-related credit risk is more difficult in regions outside of the United States. During 2005, 2004 and 2003, approximately 44%, 42% and 45%, respectively, of the Company's net sales were made in regions outside of the United States. An adverse change in either economic conditions abroad or in the Company's relationship with significant foreign retailers could significantly increase the Company's credit risk related to its international operations.

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

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board, ("FASB") issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"). This Statement replaces SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes ABP Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123R addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using the intrinsic value method under APB Opinion No. 25, "Accounting for Stock Issued to Employees", and generally would require instead that share-based awards to employees be accounted for using a fair-value-based method. SFAS No. 123R will be effective for the Company beginning on January 1, 2006. The Company will use the modified prospective application transition method and estimates that the adoption of SFAS No. 123R for share-based awards issued to employees will reduce its 2006 net income by approximately $6.0 million to $8.0 million. This estimate is based upon various assumptions, including an estimate of the number of share-based awards that will be granted, cancelled or expired during 2006, as well as the Company's future stock prices. These assumptions are highly subjective and changes in these assumptions would materially affect the Company's estimates. In addition, the Company's net income will continue to be reduced by compensation expense for share-based awards to non-employees.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"), which replaces APB Opinion No. 120, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 changes the requirements for accounting and reporting a change in accounting principle, and applies to all voluntary changes in accounting principles, as well as changes required by an accounting pronouncement in the unusual instance it does not include specific transition provisions. Specifically, SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the effects of the change, the new accounting principle must be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and a corresponding adjustment must be made to the opening balance of retained earnings for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of the change, the new principle must be applied as if it were adopted prospectively from the earliest date practicable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 does not change the transition provisions of any existing pronouncements. The Company has evaluated the impact of SFAS No. 154 and does not expect the adoption of this statement to have a significant impact on its consolidated statement of income or financial condition. The Company will apply SFAS No. 154 in future periods, when applicable.

Note 3. Business Acquisitions

FrogTrader Stock Purchase

On May 28, 2004, the Company acquired all of the issued and outstanding shares of stock of FrogTrader, Inc. ("FrogTrader"), an e-commerce company, which subsequently changed its name to Callaway Golf Interactive, Inc. The Company's consolidated statements of operations include the financial results of FrogTrader for the period from the acquisition date of May 28, 2004. The Company acquired FrogTrader to stimulate purchases of new clubs by growing the Trade In! Trade Up! program and to enable the Company to better manage the distribution of pre-owned golf clubs and the Callaway Golf brand.

The FrogTrader acquisition was accounted for as a purchase in accordance with SFAS No. 141, "Business Combinations." Under SFAS No. 141, the aggregate cost of the acquired stock was $15,175,000, which included transaction costs of approximately $218,000, and was paid entirely in cash. The aggregate acquisition costs exceeded the estimated fair value of the net assets acquired. As a result, the Company has recorded goodwill of $9,122,000, none of which is deductible for tax purposes. The Company has recorded the fair values of FrogTrader's internally developed software and certain customer information based on an assessment from an outside valuation company received during 2004. The allocation of the aggregate acquisition costs is as follows (in thousands):

Assets Acquired:	
Cash	$ 5,971
Accounts receivable	85
Inventory	1,962
Other current assets	1,475
Property, plant and equipment	258
Internally developed software	1,200
Customer lists	700
Goodwill (Note 6)	9,122
Liabilities:	
Current liabilities	(5,592)
Long-term liabilities	(6)
Total net assets acquired	$15,175

Top-Flite Asset Purchase

On September 15, 2003, the Company acquired through a court-approved sale substantially all of the golf-related assets of TFGC Estate Inc. (f/k/a The Top-Flite Golf Company, f/k/a Spalding Sports Worldwide, Inc.) and thereafter completed the valuation and settlement of certain additional assets related to the international operations of TFGC Estate Inc. (the "Top-Flite Acquisition"). The settlement of the international assets was effective October 1, 2003. Assets located in the United States were acquired by the Company's newly formed, wholly owned subsidiary, The Top-Flite Golf Company. Foreign assets were acquired by the Company's existing wholly owned subsidiaries in the relevant countries. The Company's results of operations include The Top-Flite Golf Company's results in the United States beginning September 15, 2003 and the results of the international operations beginning October 1, 2003.

The acquisition of the Top-Flite assets provided a unique opportunity to significantly increase the size and profitability of the Company's golf ball business and the Company was able to purchase the acquired assets at less than their estimated fair value. The Company paid the cash purchase price for the Top-Flite Acquisition from cash on hand. The Company intends to continue the U.S. and foreign operations of the acquired golf assets, including the use of acquired assets in the manufacturing of golf balls and golf clubs and the commercialization of the Top-Flite and Ben Hogan brands, patents and trademarks.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Top-Flite Acquisition was accounted for as a purchase in accordance with SFAS No. 141. Under SFAS No. 141, the estimated aggregate cost of the acquired assets was $182,960,000, which includes cash paid of $154,145,000, transaction costs of approximately $6,331,000, and assumed liabilities of approximately $22,484,000. The estimated fair value of the net assets acquired exceeded the estimated aggregate acquisition costs. As a result, the Company was required to reduce the carrying value of the acquired long-term assets on a pro rata basis. The allocation of the aggregate acquisition costs is as follows (in thousands):

Assets Acquired:	
Accounts receivable	$ 45,360
Inventory	32,746
Other assets	1,147
Property and equipment	55,775
Intangible assets (Note 6)	47,932
Liabilities Assumed:	
Current liabilities	(17,398)
Long-term liabilities	(5,086)
Total net assets acquired	$160,476

Pro Forma Results of Operations

The following sets forth the Company's pro forma results of operations for the year ended December 31, 2003, as if the acquisition of the Top-Flite golf operations had taken place at the beginning of the period presented. No pro forma information has been included relating to the FrogTrader acquisition, as this acquisition was not deemed to be significant under the applicable rules (in thousands, except per share data)[(1)].

	Year Ended December 31, 2003
Net sales	$ 1,005,070
Net income	$ 33,471
Earnings per common share:	
Basic	$ 0.51
Diluted	$ 0.50

(1) Until September 15, 2003, the Top-Flite golf business was operated as a part of, and was integrated with, the other businesses of Spalding Sports Worldwide. The pro forma results of operations presented above therefore are based upon an estimated allocation of personnel and costs with regard to the manner in which the Top-Flite golf business was structured and operated as part of Spalding Sports Worldwide. The allocated personnel and costs are not necessarily indicative of the personnel and costs that would have been included had the Top-Flite business been operated as part of Callaway Golf Company since the beginning of the periods presented. As a result, the pro forma results of operations are not necessarily indicative of the results of operations had the acquisition been completed at the beginning of the period presented.

Note 4. Restructuring and Integration Initiatives

In September 2005, the Company began the implementation of several company-wide restructuring initiatives designed to improve the Company's business processes and reduce the Company's overall expenses (the "2005 Restructuring Initiatives"). The 2005 Restructuring Initiatives include, among other things, the integration of the Callaway Golf, Odyssey, Top-Flite and Ben Hogan selling functions, the complete consolidation of all golf ball manufacturing at the Top-Flite locations in Massachusetts and New York, and the elimination or reduction of other operating expenses. The 2005 Restructuring Initiatives and estimated charges

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

for such initiatives are in addition to the previously reported integration of the Callaway Golf and Top-Flite operations and the charges for such integration.

In connection with the 2005 Restructuring Initiatives, the Company committed to staff reductions that involve the elimination of approximately 500 positions worldwide, including full-time and part-time employees, temporary staffing and open positions. Most of the employee terminations were completed by December 31, 2005 and all such employee terminations will be completed by December 31, 2006. Terminated employees will receive termination benefits for a specified period. As of December 31, 2005, the Company recorded charges to cost of sales, selling expense, general and administrative expense, and research and development expense in the amount of $7,119,000 for employee termination benefits and $1,205,000 for facility closures and other costs. The Company expects to incur additional charges of approximately $4,000,000 in 2006.

The activity and liability balances recorded as part of the 2005 Restructuring Initiatives were as follows (in thousands):

	Workforce Reductions	Facility and Other	Total
Charges to cost and expense	$ 7,119	$ 1,205	$ 8,324
Non-cash items	—	(1,024)	(1,024)
Cash payments	(3,682)	(181)	(3,863)
Restructuring balance, December 31, 2005	$ 3,437	$ —	$ 3,437

In October 2005, the Company completed its full consolidation of the Callaway Golf ball manufacturing with the Top-Flite golf ball manufacturing at the Chicopee, Massachusetts and Gloversville, New York locations. During December 2005, 2004 and 2003, in connection with the consolidation, the Company incurred charges to pre-tax earnings of $12,413,000 million, $28,500,000 million and $24,080,000 million, respectively. The 2005 charges included non-cash charges for acceleration of depreciation on certain golf ball manufacturing equipment and cash charges related to severance and facility consolidations. The charges incurred during 2004 included severance, the disposition of certain long-lived assets and other costs associated with the consolidation of certain facilities. During 2006, the Company anticipates additional charges to pre-tax earnings of $3,000,000 million in order to complete the restoration of the ball manufacturing plant in Carlsbad, California. The activity recorded as part of the 2005 Restructuring Initiatives was as follows (in thousands):

	Workforce Reductions	Facility and Other	Total
Charges to cost and expense	$ —	$ 24,080	$ 24,080
Non-cash items	—	(24,080)	(24,080)
Cash payments	—	—	—
Integration balance, December 31, 2003	—	—	—
Charges to cost and expense	8,583	19,917	28,500
Non-cash payments	—	(15,828)	(15,828)
Cash payments	(8,029)	(4,089)	(12,118)
Integration balance, December 31, 2004	554	—	554
Charges to cost and expense	1,241	11,172	12,413
Non-cash payments	—	(7,011)	(7,011)
Cash payments	(1,795)	2,572	(4,367)
Integration balance, December 31, 2005	$ —	$ 1,589	$ 1,589

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 5. Selected Financial Statement Information

	December 31, 2005	December 31, 2004
	(In thousands)	
Accounts receivable, net:		
Trade accounts receivable	$ 106,486	$ 112,523
Allowance for doubtful accounts	(8,404)	(7,370)
	$ 98,082	$ 105,153
Inventories, net:		
Raw materials	$ 84,188	$ 63,556
Work-in-process	5,313	6,758
Finished goods	152,076	110,916
	$ 241,577	$ 181,230
Property, plant and equipment, net:		
Land	$ 12,751	$ 12,809
Buildings and improvements	87,765	92,703
Machinery and equipment	126,074	128,462
Furniture, computers and equipment	107,802	93,390
Production molds	32,008	28,936
Construction-in-process	10,850	10,663
	377,250	366,963
Accumulated depreciation	(249,511)	(231,098)
	$ 127,739	$ 135,865
Accounts payable and accrued expenses:		
Accounts payable	$ 26,524	$ 16,658
Accrued expenses	75,610	58,843
	$ 102,134	$ 75,501
Accrued employee compensation and benefits:		
Accrued payroll and taxes	$ 14,962	$ 10,411
Accrued vacation and sick pay	8,747	8,581
Accrued commissions	1,074	1,223
	$ 24,783	$ 20,215

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 6. Goodwill and Intangible Assets

In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets,” the Company’s goodwill and certain intangible assets are not amortized, but are subject to an annual impairment test. The following sets forth the intangible assets by major asset class:

	Useful Life (Years)	December 31, 2005 Gross	December 31, 2005 Accumulated Amortization (In thousands)	December 31, 2005 Net Book Value	December 31, 2004 Gross	December 31, 2004 Accumulated Amortization (In thousands)	December 31, 2004 Net Book Value
Non-Amortizing:							
Trade name, trademark and trade dress	NA	$ 121,794	$ —	$ 121,794	$ 121,794	$ —	$ 121,794
Amortizing:							
Patents	3-16	34,045	11,212	22,833	35,307	9,787	25,520
Other	1-9	2,335	839	1,496	3,080	1,226	1,854
Total intangible assets		$ 158,174	$ 12,051	$ 146,123	$ 160,181	$ 11,013	$ 149,168

Aggregate amortization expense on intangible assets was approximately $3,045,000, $3,380,000 and $2,008,000 for the years ended December 31, 2005, 2004 and 2003, respectively. Amortization expense related to intangible assets at December 31, 2005 in each of the next five fiscal years and beyond is expected to be incurred as follows (in thousands):

2006	$ 2,994
2007	2,990
2008	2,955
2009	2,766
2010	2,687
Thereafter	9,937
	$ 24,329

In accordance with SFAS No. 142, the Company has completed the annual impairment tests and fair value analysis for goodwill and other non-amortizing intangible assets, respectively, held throughout the year. There were no impairments or impairment indicators present and no loss was recorded during the year ended December 31, 2005. Changes in goodwill during the years ended December 31, 2005 and 2004 consisted of approximately $24,000 and $9,097,000, respectively, of goodwill added in connection with the FrogTrader acquisition, as well as $1,425,000 and $1,155,000, respectively, related to the effect of fluctuations in exchange rates on goodwill balances held in foreign currencies.

Note 7. Financing Arrangements

The Company’s principal sources of liquidity are cash flows provided by operations and the Company’s credit facilities in effect from time to time. The Company currently expects this to continue. Effective January 23, 2006, the Company, Bank of America, N.A. and certain other lenders entered into an agreement (the “Second Amendment”) to amend the Company’s November 5, 2004 Amended and Restated Credit Agreement (as amended, the “Line of Credit”) to provide for modification of the financial covenants, pricing and certain other terms. The amendment also extends the term of the Line of Credit to expire on February 5, 2011.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Line of Credit provides for revolving loans of up to $250.0 million, although actual borrowing availability is effectively limited by the financial covenants contained therein. As of December 31, 2005, the maximum amount that could be borrowed under the Line of Credit was approximately $180.0 million, none of which was outstanding.

Under the Line of Credit, the Company is required to pay certain fees, including an unused commitment fee of between 12.5 to 27.5 basis points per annum of the unused commitment amount, with the exact amount determined based upon the Company's consolidated leverage ratio and trailing four quarters earnings' before income taxes, depreciation and amortization (EBITDA) (each as defined in the agreement governing the Line of Credit). Outstanding borrowings under the Line of Credit accrue interest, at the Company's election, based upon the Company's consolidated leverage ratio and trailing four quarters' EBITDA, of (i) the higher of (a) the Federal Funds Rate plus 50.0 basis points or (b) Bank of America's prime rate, and in either case, plus a margin of 00.0 to 25.0 basis points or (ii) the Eurodollar Rate (as defined in the agreement governing the Line of Credit) plus a margin of 62.5 to 150.0 basis points. The Company has agreed that repayment of amounts under the Line of Credit will be guaranteed by certain of the Company's domestic subsidiaries and will be secured by substantially all of the assets of the Company and such guarantor subsidiaries. The collateral (other than 65% of the stock of the Company's foreign subsidiaries) could be released upon the satisfaction of certain financial conditions.

The Line of Credit requires the Company to meet certain financial covenants, including a minimum tangible net worth covenant and includes certain other restrictions, including restrictions limiting dividends, stock repurchases, capital expenditures and asset sales. As of December 31, 2005, the Company was in compliance with the covenants and other terms of the Line of Credit, as then applicable.

The total origination fees incurred in connection with the Line of Credit were $1,303,000 and are being amortized into interest expense over the remaining term of the Line of Credit agreement. Unamortized origination fees were $1,009,000 million as of December 31, 2005, of which $253,000 were included in prepaid and other current assets and $756,000 in other long-term assets in the accompanying consolidated balance sheet. In January 2006, the Company incurred additional fees of approximately $333,000 million in connection with the Second Amendment.

Note 8. Derivatives and Hedging

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

Foreign Currency Exchange Contracts

The Company enters into foreign exchange contracts to hedge against exposure to changes in foreign currency exchange rates. Such contracts are designated at inception to the related foreign currency exposures being hedged, which include anticipated intercompany sales of inventory denominated in foreign currencies, payments due on intercompany transactions from certain wholly owned foreign subsidiaries, and anticipated sales by the Company's wholly owned European subsidiary for certain Euro-denominated transactions. Hedged transactions are denominated primarily in British Pounds, Euros, Japanese Yen, Korean Won, Canadian Dollars and Australian Dollars. To achieve hedge accounting, contracts must reduce the foreign currency exchange rate risk otherwise inherent in the amount and duration of the hedged exposures and comply with established risk management policies. Pursuant to its foreign exchange hedging policy, the Company may hedge anticipated transactions and the related receivables and payables denominated in foreign currencies using forward foreign currency exchange rate contracts and put or call options. Foreign currency derivatives are used only to meet the Company's objectives of minimizing variability in the Company's operating results arising from foreign exchange rate movements. The Company does not enter into foreign exchange contracts for speculative purposes. Hedging contracts mature within 12 months from their inception.

At December 31, 2005, 2004 and 2003, the notional amounts of the Company's foreign exchange contracts were approximately $35,624,000, $52,736,000 and $91,222,000, respectively. The Company estimates the fair values of derivatives based on quoted market prices or pricing models using current market rates and records all derivatives on the balance sheet at fair value. At December 31, 2005, current assets and current liabilities related to the fair value of foreign currency-related derivatives were $512,000 and $511,000, respectively. At December 31, 2004, current liabilities related to the fair value of foreign currency-related derivatives were $2,981,000. There were no current assets related to the fair values of foreign currency-related derivatives as of December 31, 2004.

At December 31, 2005, 2004 and 2003, the notional amounts of the Company's foreign exchange contracts used to hedge outstanding balance sheet exposures were approximately $35,624,000, $52,736,000 and $46,779,000, respectively. The gains and losses on foreign currency contracts used to hedge balance sheet exposures are recognized as a component of interest and other income in the same period as the remeasurement gain and loss of the related foreign currency denominated assets and liabilities and thus offset these gains and losses. During the years ended December 31, 2005, 2004 and 2003, the Company recorded net gains of $4,222,000 and net losses of $4,577,000 and $6,838,000, respectively, due to net realized and unrealized gains and losses on contracts used to hedge balance sheet exposures.

At December 31, 2005 and 2004 there were no outstanding foreign exchange contracts designated as cash flow hedges. At December 31, 2003, the notional amounts of the Company's foreign exchange contracts designated as cash flow hedges were approximately $44,443,000. 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.

During the years ended December 31, 2005, 2004 and 2003, no gains or losses were reclassified into earnings as a result of the discontinuance of cash flow hedges.

The ineffective portion of the gain or loss for derivative instruments that are designated and qualify as cash flow hedges is immediately reported as a component of interest and other income. For foreign currency contracts designated as cash flow hedges, hedge effectiveness is measured using the spot rate. Changes in the spot-forward differential are excluded from the test of hedging effectiveness and are recorded currently in earnings as a component of interest and other income. During the years ended December 31, 2005, 2004 and 2003, the Company recorded net gains (losses) of $0, $103,000 loss and $38,000 gain, respectively, as a result of changes in the spot-forward differential. Assessments of hedge effectiveness are performed using the dollar offset method and applying a hedge effectiveness ratio between 80% and 125%. Given that both the hedged item and the hedging instrument are evaluated using the same spot rate, the Company anticipates the hedges to be highly effective. The effectiveness of each derivative is assessed quarterly.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 9. Earnings Per Common Share

The schedule below summarizes the elements included in the calculation of basic and diluted earnings (loss) per common share for the years ended December 31, 2005, 2004 and 2003.

	Year Ended December 31,		
	2005	2004	2003
	(In thousands, except per share data)		
Net income (loss)	$13,284	$ (10,103)	$ 45,523
Weighted-average shares outstanding:			
Weighted-average shares outstanding—Basic	68,646	67,721	66,027
Dilutive securities	593	—	444
Weighted-average shares outstanding—Diluted	69,239	67,721	66,471
Earnings (loss) per common share:			
Basic	$ 0.19	$ (0.15)	$ 0.69
Diluted	$ 0.19	$ (0.15)	$ 0.68

Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Options with an exercise price in excess of the average market value of the Company's Common Stock during the period have been excluded from the calculation as their effect would be antidilutive. Additionally, potentially dilutive securities are excluded from the computation of earnings per share in periods in which a net loss is reported as their effect would be antidilutive. Thus, weighted-average shares outstanding—Diluted is the same as weighted-average shares outstanding—Basic in periods when a net loss is reported. For the years ended December 31, 2005 and 2003, options outstanding totaling approximately 7,816,000 shares and 10,606,000 shares, respectively, were excluded from the calculations of earnings per common share, as their effect would have been antidilutive.

Note 10. Stock, Stock Options and Rights

Common Stock and Preferred Stock

The Company has an authorized capital of 243,000,000 shares, $0.01 par value, of which 240,000,000 shares are designated Common Stock, and 3,000,000 shares are designated Preferred Stock. Of the Preferred Stock, 240,000 shares are designated Series A Junior Participating Preferred Stock. The remaining shares of Preferred Stock are undesignated as to series, rights, preferences, privileges or restrictions.

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

Treasury Stock

In November 2005, 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, up to a maximum cost to the Company of $50,000,000. The new stock repurchase program supersedes the May 2002 repurchase program and all prior stock repurchase authorizations. There were no repurchases under this authorization during the fourth quarter of 2005.

During 2005, the Company reacquired 3,000 shares of its Common Stock at an average cost per share of $12.36 through the withholding of shares in satisfaction of employee tax obligations related to the vesting of employee restricted stock awards. The Company's repurchases of shares of Common Stock are recorded at average cost in Common Stock held in treasury and result in a reduction of shareholders' equity.

Grantor Stock Trust

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

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

For financial reporting purposes, the GST is consolidated with the Company. The value of shares owned by the GST are accounted for as a reduction to shareholders' equity until used in connection with the settlement of employee stock option exercises, employee stock plan purchases or other awards. Each period, the shares owned by the GST are valued at the closing market price, with corresponding changes in the GST balance reflected in additional paid-in capital. The issuance of shares by the GST is accounted for by reducing the GST and additional paid-in capital accounts proportionately as the shares are released. The GST does not impact the determination or amount of compensation expense for the benefit plans being settled. The GST shares do not have any impact on the Company's earnings per share until they are used in connection with the settlement of employee stock option exercises, employee stock plan purchases or other awards.

The following table presents shares released from the GST for the settlement of employee stock option exercises and employee stock plan purchases for the years ended December 31, 2005, 2004 and 2003:

	Year Ended December 31,		
	2005	2004	2003
		(In thousands)	
Employee stock option exercises	853	1,109	1,041
Employee stock plan purchases	369	417	385
Total shares released from the GST	1,222	1,526	1,426

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Options

The Company had the following two stock option plans under which shares were available for grant at December 31, 2005: The 2004 Equity Incentive Plan (the "2004 Plan") and the 2001 Non-Employee Directors Stock Option Plan (the "2001 Directors Plan").

The 2004 Plan permits the granting of options or other equity-based awards to the Company's officers, employees and consultants. Under the 2004 Plan, options may not be granted at option prices that are less than fair market value at the date of grant. The 2001 Directors Plan is a shareholder-approved plan. It provides for automatic grants of stock options upon a non-employee Director's initial appointment to the Company's Board of Directors and thereafter annually if the director will be serving for at least another year. All such grants are made at prices based on the market value of the stock at the date of grant.

The following table presents shares authorized, available for future grant and outstanding under each of the Company's plans as of December 31, 2005:

	Authorized	Available (In thousands)	Outstanding
1991 Stock Incentive Plan	10,000	—	102
Promotion, Marketing and Endorsement Stock Incentive Plan	3,560	—	660
1995 Employee Stock Incentive Plan	10,800	—	4,326
1996 Stock Option Plan	9,000	—	2,662
1998 Stock Incentive Plan	500	—	67
2001 Directors Plan	500	282	218
2004 Plan	8,000	2,820	2,123
Non-Employee Directors Stock Option Plan	840	—	136
Total	43,200	3,102	10,294

Under the Company's stock option plans, outstanding options generally vest over periods ranging from 0 to 5 years from the grant date and generally expire up to 12 years after the grant date.

The following summarizes stock option transactions for the years ended December 31, 2005, 2004 and 2003:

	Year Ended December 31,					
	2005		2004		2003	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
	(in thousands, except per share data)					
Outstanding at beginning of year	12,669	$ 18.41	13,238	$ 19.04	14,936	$ 20.19
Granted	2,183	$ 13.28	2,875	$ 13.89	1,820	$ 12.73
Exercised	(858)	$ 12.70	(1,132)	$ 13.84	(1,174)	$ 11.71
Canceled	(3,700)	$ 20.09	(2,312)	$ 22.21	(2,344)	$ 25.18
Outstanding at end of year	10,294	$ 17.19	12,669	$ 18.41	13,238	$ 19.04
Options exercisable at end of year	7,056	$ 18.45	9,154	$ 19.57	9,922	$ 20.56
Price range of outstanding options		$ 9.88 - $40.00		$ 5.25 -$40.00		$ 5.25 -$40.00

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The exercise price of all options granted during 2005, 2004 and 2003 was equal to the market value on the date of grant. The following table summarizes additional information about outstanding stock options at December 31, 2005:

Range of Exercise Price	Number Outstanding (in thousands)	Remaining Contractual Life-Years	Weighted-Average Exercise Price	Number Exercisable (in thousands)	Weighted-Average Exercise Price
$9.88 - $15	4,157	7.40	$ 12.99	1,872	$ 12.89
$15 - $20	5,084	5.97	$ 17.71	4,131	$ 17,71
$20 - $25	69	4.75	$ 22.67	69	$ 22.67
$25 - $40	984	1.53	$ 31.86	984	$ 31.86
$9.88 - $40	10,294	6.11	$ 17.19	7,056	$ 18.45

Restricted Common Stock

During 2005 and 2004, the Company granted 160,000 and 1,052,500 shares, respectively, of Restricted Common Stock to certain employee and non-employee participants under the Company's 2004 Equity Incentive Plan. The fair value of the shares for both 2005 and 2004 range between $10.45 and $15.23 per share. The Company recorded $6,527,000 and $1,741,000 of compensation expense related to these shares of Restricted Common Stock during 2005 and 2004, respectively. The Company did not grant shares of Restricted Common Stock during 2003.

Employee Stock Purchase Plan

On May 25, 2004 the Company's shareholders approved the amendment and restatement of the Company's 1999 Employee Stock Purchase Plan. The amended and restated plan was renamed the Callaway Golf Company Employee Stock Purchase Plan (the "ESPP" or the "Plan") and authorized an additional 4,000,000 shares for issuance under the Plan. Additionally, the Plan was amended to shorten the look-back period from two years to one year. Under the amended and restated Plan participating employees authorize the Company to withhold compensation and to use the withheld amounts to purchase shares of the Company's Common Stock at 85% of the lower of the fair market value on the first day of a one-year offering period or the last day of each six-month exercise period. During 2005, 2004 and 2003, approximately 369,000, 417,000 and 385,000 shares, respectively, of the Company's Common Stock were purchased under the Plan. As of December 31, 2005, there were 3,664,000 shares reserved for future issuance under the Plan.

On February 1, 2006, the Company amended and restated its 1999 Employee Stock Purchase Plan to eliminate the look-back provision. Under the Amended and Restated Plan, participating employees authorize the Company to withhold compensation and to use the withheld amounts to purchase shares of the Company's common stock at 85% of the closing price on the last day of each six-month exercise period.

Compensation Expense

During 2005, 2004 and 2003, the Company recorded $6,527,000, $1,741,000 and $15,000, respectively, in compensation expense for Restricted Common Stock and certain options to purchase shares of Common Stock granted to employees, officers, professional endorsers and consultants of the Company. The valuation of options granted to non-employees is estimated using the Black-Scholes option-pricing model.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

Note 11. Employee Benefit Plans

The Company has a voluntary deferred compensation plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan") for all employees who satisfy the age and service requirements under the 401(k) Plan. Each participant may elect to contribute up to 25% of annual compensation, up to the maximum permitted under federal law, and the Company is obligated to contribute annually an amount equal to 100% of the participant's contribution up to 6% of that participant's annual compensation. The portion of the participant's account attributable to elective deferral contributions and rollover contributions are 100% vested and nonforfeitable. Participants vest in employer matching and profit sharing contributions at a rate of 25% per year, becoming fully vested after the completion of four years of service. Employees contributed $8,925,000, $9,065,000 and $6,216,000 to the 401(k) Plan in 2005, 2004 and 2003, respectively. In accordance with the provisions of the 401(k) Plan, the Company matched employee contributions in the amount of $6,156,000, $6,608,000 and $4,695,000 during 2005, 2004 and 2003, respectively. Additionally, the Company can make discretionary contributions based on the profitability of the Company. For the years ended December 31, 2005 and 2004 there were no discretionary contributions. For the year ended December 31, 2003, compensation expense for discretionary contributions was $1,898,000.

The Company also has an unfunded, nonqualified deferred compensation plan. The plan allows officers, certain other employees and directors of the Company to defer all or part of their compensation to be paid to the participants or their designated beneficiaries upon retirement, death or separation from the Company. To support the deferred compensation plan, the Company has elected to purchase Company-owned life insurance. The cash surrender value of the Company-owned insurance related to deferred compensation is included in other assets and was $9,892,000 and $9,792,000 at December 31, 2005 and 2004, respectively. The liability for the deferred compensation is included in long-term liabilities and was $8,323,000 and $8,674,000 at December 31, 2005, and 2004, respectively. For the years ended December 31, 2005 and 2004, the total participant deferrals were $2,882,000 and $3,482,000, respectively.

Note 12. Income Taxes

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

	Year Ended December 31,		
	2005	2004	2003
United States	$ (5,685)	$ (34,182)	$50,803
Foreign	20,222	10,469	17,080
	$14,537	$ (23,713)	$67,883

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The provision (benefit) for income taxes is as follows (in thousands):

	Year Ended December 31,		
	2005	2004	2003
Current tax provision (benefit):			
Federal	$(3,652)	$(24,700)	$21,452
State	(1,087)	(270)	2,954
Foreign	7,905	5,160	7,215
Deferred tax expense (benefit):			
Federal	(1,789)	10,147	(8,323)
State	459	(2,814)	120
Foreign	(583)	(1,133)	(1,058)
Income tax provision (benefit)	$ 1,253	$(13,610)	$22,360

During 2005, 2004, and 2003, tax benefits related to stock option exercises were $2,408,000, $2,161,000, and $1,784,000, respectively. Such benefits were recorded as a reduction of income taxes payable and an increase in additional paid-in capital.

Deferred tax assets and liabilities are classified as current or noncurrent according to the classification of the related asset or liability. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2005 and 2004 are as follows (in thousands):

	December 31,	
	2005	2004
Deferred tax assets:		
Reserves and allowances	$17,944	$16,414
Compensation and benefits	6,854	6,765
Effect of inventory overhead adjustment	3,291	5,815
Compensatory stock options and rights	2,880	941
Revenue recognition	9,621	9,177
Long-lived asset impairment	635	635
Operating loss carryforward	2,221	3,305
Tax credit carryforwards	3,649	3,770
Energy derivative	8,230	8,230
Other	1,115	1,280
Total deferred tax assets	56,440	56,332
Valuation allowance for deferred tax assets	(4,980)	(4,706)
Deferred tax assets, net of valuation allowance	51,460	51,626
Deferred tax liabilities:		
State taxes, net of federal income tax benefit	(3,274)	(3,374)
Prepaid expenses	(2,209)	(2,405)
Depreciation and amortization	(1,269)	(3,051)
Net deferred tax assets	$44,708	$42,796

Of the total tax credit carryforwards of $3,649,000 at December 31, 2005, the Company has state investment tax credits of $2,353,500 which expire at various dates through 2012 and $482,600 that generally do not expire, foreign tax credit carryforwards of $44,000 which expire in 2009, and research and development credit carryforwards of $87,300 which expire at various dates through 2020 and $681,200 that generally do not expire. The utilization of the net operating loss carryforwards is limited and the carryforwards expire at various dates through 2014 if unutilized.

The Company maintains a valuation allowance to reduce certain deferred tax assets to amounts that are, in management's estimation, more likely than not to be realized. This allowance primarily relates to the uncertainty of realizing certain tax credit carryforwards, and a portion of other deferred tax assets. Of the $4,980,000 valuation allowance at December 31, 2005, $2,100,000 is related to certain Top-Flite deferred tax assets existing at the time of the acquisition. In the future, if we determine that the realization of these Top-Flite deferred tax assets is more likely than not, the reversal of the related valuation allowance will reduce goodwill instead of provision for taxes. Based on management's assessment, it is more likely than not that the net deferred tax assets will be realized through future earnings.

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

	Year Ended December 31,		
	2005	2004	2003
Amounts computed at statutory U.S. tax rate	$ 5,088	$ (8,300)	$23,703
State income taxes, net of U.S. tax benefit	(369)	(1,466)	2,509
State tax credits, net of U.S. tax benefit	(418)	(1,171)	(1,138)
Expenses with no tax benefit	634	706	876
Foreign sales corporation tax benefits	—	—	(4,277)
Extra-territorial income exclusion benefit	(189)	—	—
Change in deferred tax valuation allowance	274	1,166	1,086
Income tax contingency reserve	(3,564)	(4,382)	(3)
Other	(203)	(163)	(396)
Income tax provision	$ 1,253	$(13,610)	$22,360

The Company's U.S. and foreign tax returns are subject to routine compliance reviews by the various tax authorities. The Company accrues for federal, state and foreign tax contingencies based upon its best estimate of the additional taxes, interest and penalties expected to be paid. These estimates are updated over time as more definitive information becomes available from taxing authorities, completion of tax audits, expiration of statute of limitations, or upon occurrence of other events.

In 2005, the tax rate benefited from net favorable adjustments to previously estimated tax liabilities in the amount of $3,564,000. The most significant favorable adjustments relate to the resolution of state tax audits and various agreements reached with the Internal Revenue Service ("IRS") on certain issues necessitating a reassessment of the Company's tax exposures for all open tax years.

In December 2005, the Company and IRS Appeals completed substantive discussions regarding the resolution of the previous assessments against the Company's 1998 through 2000 tax returns and the determinations therein are considered in the evaluation of the required amount of tax contingency reserve as of December 31, 2005. The IRS is currently auditing tax years 2001 through 2003 and this review is expected to be completed in 2007.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of December 31, 2005, the Company did not provide for United States income taxes or foreign withholding taxes on a cumulative total of $56,7000,000 of undistributed earnings from certain non-U.S. subsidiaries that will be permanently reinvested outside the United States. Should the Company repatriate foreign earnings, the Company would have to adjust the income tax provision in the period management determined that the Company would repatriate earnings. The Company has studied the impact of the one-time favorable foreign dividend provision enacted on October 22, 2004 as part of the American Jobs Creation Act of 2004, and has decided not to repatriate earnings of some of its foreign subsidiaries.

Note 13. Commitments and Contingencies

Legal Matters

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

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

In the fall of 1999, the Company adopted a unilateral sales policy called the New Product Introduction Policy ("NPIP"). The NPIP sets forth the basis on which the Company chooses to do business with its customers with respect to the introduction of new products. The NPIP has been the subject of several legal challenges. Currently pending cases, described below, include Lundsford v. Callaway Golf, Case No. 2001-24-IV, pending in Tennessee state court ("Lundsford I"); Foulston v. Callaway Golf, Case No. 02C3607, pending in Kansas state court ("Foulston"); Murray v. Callaway Golf Sales Company, Case No. 3:04CV274-H, pending in the United States District Court for the Western District of North Carolina ("Murray"); and Lundsford v. Callaway Golf, Civil Action No. 3:04-cv-442, pending in the United States District Court for the Eastern District of Tennessee ("Lundsford II"). An adverse resolution of the NPIP cases could have a significant adverse effect upon the Company's results of operations, cash flows and financial position.

Lundsford I was filed on April 6, 2001, and seeks to assert a putative class action by plaintiff on behalf of himself and on behalf of consumers in Tennessee and Kansas who purchased select Callaway Golf products covered by the NPIP on or after March 30, 2000. Plaintiff asserts violations of Tennessee and Kansas antitrust and consumer protection laws and is seeking damages, restitution and punitive damages. The court has not made any determination that the case may proceed in the form of a class action. In light of the subsequently filed Lundsford II case, the parties agreed to stay Lundsford I and to dismiss it without prejudice once the federal court accepted jurisdiction over the state-law claims. Plaintiff has moved for summary judgment and class-certification in Lundsford I, but has withdrawn his request for a hearing on those motions.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In Foulston, filed on November 4, 2002, plaintiff seeks to assert an alleged class action on behalf of Kansas consumers who purchased Callaway Golf products covered by the NPIP and seeks damages and restitution for the alleged class under Kansas law. The trial court in Foulston stayed the case in light of Lundsford I. The Foulston court has not made any determination that the case may proceed in the form of a class action.

The complaint in Murray was filed on May 14, 2004, alleging that a retail golf business was damaged by the alleged refusal of Callaway Golf Sales Company to sell certain products after the store violated the NPIP and by the failure to permit plaintiff to sell Callaway Golf products on the Internet. The proprietor seeks compensatory and punitive damages associated with the failure of his retail operation. Callaway Golf removed the case to the United States District Court for the Western District of North Carolina and has answered the complaint denying liability. The parties are currently engaged in discovery and motion practice. The original trial date of December 2005 was vacated due to pending motions filed by Callaway Golf. A new trial date has not yet been set.

Lundsford II was filed on September 28, 2004, and the complaint asserts that the NPIP constitutes an unlawful resale price agreement and an attempt to monopolize golf club sales prohibited by federal antitrust law. The complaint also alleges a violation of the state antitrust laws of Tennessee, Kansas, South Carolina and Oklahoma. Lundsford II seeks to assert a nationwide class action consisting of all persons who purchased Callaway Golf clubs subject to the NPIP on or after March 30, 2000. Plaintiff seeks treble damages under the federal antitrust laws, compensatory damages under state law, and an injunction. The Lundsford II court determined on July 20, 2005 that the case may not proceed in the form of a class action. The court also denied plaintiff's motion for summary judgment. On September 22, 2005, the United States Court of Appeals for the Sixth Circuit denied plaintiff's request to file an interim appeal of the class certification issue. The plaintiff's request to the district court for permission to appeal the adverse ruling on the summary judgment ruling is pending. Trial has been set for the summer of 2006 with respect to the individual named plaintiff's claim.

On February 9, 2006, the Company filed a complaint in the United States District Court for the District of Delaware, Case No. C.A. 06-91, asserting claims against Acushnet Company for patent infringement. Specifically, Callaway Golf asserts that Acushnet's sale of the Titleist Pro V1 family of golf balls infringes four golf ball patents that Callaway Golf acquired when it acquired the assets of Top-Flite. Callaway Golf is seeking damages and an injunction to prevent future infringement by Acushnet.

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

Supply of Electricity and Energy Contracts

In 2001, the Company entered into an agreement with Pilot Power Group, Inc. ("Pilot Power") as the Company's energy service provider and in connection therewith entered into a long-term, fixed-priced, fixed capacity, energy supply contract (the "Enron Contract") with Enron Energy Services, Inc. ("EESI"), a subsidiary of Enron Corporation, as part of a comprehensive strategy to ensure the uninterrupted supply of energy while capping electricity costs in the volatile California energy market. The Enron Contract provided, subject to the other terms and conditions of the contract, for the Company to purchase 9 megawatts of energy per hour from June 1, 2001 through May 31, 2006 (394,416 megawatts over the term of the contract). The total purchase price for such energy over the full contract term would have been approximately $43,484,000.

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

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 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 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 $19,922,000.

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 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 valuation adjustments for changes in electricity rates. The Company continues to reflect on its balance sheet the derivative valuation account of $19,922,000, subject to periodic review, in accordance with SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.”

The Company believes the Enron Contract has been terminated, and as of December 31, 2005, 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.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Lease Commitments

The Company leases certain warehouse, distribution and office facilities, vehicles as well as office equipment under operating leases and certain computer and telecommunication equipment under capital leases. Lease terms range from 1 to 10 years expiring at various dates through July 2014, with options to renew at varying terms. Commitments for minimum lease payments under non-cancelable operating leases as of December 31, 2005 are as follows:

	(In thousands)
2006	$ 5,650
2007	3,068
2008	1,151
2009	184
2010	25
Thereafter	89
	$ 10,167

Future minimum lease payments have not been reduced by future minimum sublease rentals of $765,000 under an operating lease. Rent expense for the years ended December 31, 2005, 2004 and 2003 was $7,737,000, $6,391,000 and $4,388,000, respectively.

Unconditional Purchase Obligations

During the normal course of its business, the Company enters into agreements to purchase goods and services, including purchase commitments for production materials, endorsement agreements with professional golfers and other endorsers, employment and consulting agreements, and intellectual property licensing agreements pursuant to which the Company is required to pay royalty fees. It is not possible to determine the amounts the Company will ultimately be required to pay under these agreements as they are subject to many variables including performance-based bonuses, reductions in payment obligations if designated minimum performance criteria are not achieved, and severance arrangements. As of December 31, 2005, the Company has entered into many of these contractual agreements with terms ranging from one to six years. The minimum obligation that the Company is required to pay under these agreements is $111,895,000 over the next six years. In addition, the Company also enters into unconditional purchase obligations with various vendors and suppliers of goods and services in the normal course of operations through purchase orders or other documentation or that are undocumented except for an invoice. Such unconditional purchase obligations are generally outstanding for periods less than a year and are settled by cash payments upon delivery of goods and services and are not reflected in this total. Future purchase commitments as of December 31, 2005 are as follows:

	(In thousands)
2006	$ 34,362
2007	30,017
2008	23,213
2009	18,303
2010	2,400
Thereafter	3,600
	$ 111,895

Other Contingent Contractual Obligations

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company's customers and licensees in connection with the use, sale and/or license of Company products, (ii) indemnities to various lessors in connection with facility leases for certain claims arising from such facilities or leases, (iii) indemnities to vendors and service providers pertaining to claims based on the negligence or willful misconduct of the Company and (iv) indemnities involving the accuracy of representations and warranties in certain contracts. In addition, the Company has made contractual commitments to each of its officers and certain other employees providing for severance payments upon the termination of employment. The Company also has consulting agreements that provide for payment of nominal fees upon the issuance of patents and/or the commercialization of research results. The Company has also issued a guarantee in the form of a standby letter of credit as security for contingent liabilities under certain workers' compensation insurance policies. The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum amount of future payments the Company could be obligated to make. Historically, costs incurred to settle claims related to indemnities have not been material to the Company's financial position, results of operations or cash flows. In addition, the Company believes the likelihood is remote that material payments will be required under the commitments and guarantees described above. The fair value of indemnities, commitments and guarantees that the Company issued during 2003 through 2005 was not material to the Company's financial position, results of operations or cash flows.

Employment Contracts

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

Note 14. Segment Information

The Company's operating segments are organized on the basis of products and include Golf Clubs and Golf Balls. The Golf Clubs segment consists primarily of Callaway Golf, Top-Flite and Ben Hogan woods, hybrids, irons, wedges and putters as well as Odyssey putters, other golf-related accessories and royalties from licensing of the Company's trademarks and service marks. The Golf Balls segment consists primarily of Callaway Golf, Top-Flite and Ben Hogan golf balls that are designed, manufactured and sold by the Company. There are no significant intersegment transactions.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	2005	2004 (In thousands)	2003
Net sales			
Golf Clubs	$783,398	$703,227	$735,654
Golf Balls	214,695	231,337	78,378
	$998,093	$934,564	$814,032
Income (loss) before tax			
Golf Clubs (1,2)	$ 68,327	$ 36,806	$167,996
Golf Balls(1,2)	(3,612)	(16,895)	(52,687)
Reconciling items(3)	(50,178)	(43,624)	(47,426)
	$ 14,537	$ (23,713)	$ 67,883
Identifiable assets(4)			
Golf Clubs	$390,153	$388,801	$307,462
Golf Balls	154,355	107,476	190,172
Reconciling items(4)	219,990	239,460	250,932
	$764,498	$735,737	$748,566
Goodwill			
Golf Clubs	$ 29,068	$ 30,468	$ 20,216
Golf Balls	—	—	—
	$ 29,068	$ 30,468	$ 20,216
Depreciation and amortization			
Golf Clubs	$ 25,935	$ 38,492	$ 30,818
Golf Balls	12,325	12,662	13,678
	$ 38,260	$ 51,154	$ 44,496

(1) The Company's income (loss) before tax includes the recognition of certain integration charges related to the consolidation of its Callaway Golf and Top-Flite golf ball and golf club selling, manufacturing and research and development operations. The Golf Clubs segment's income before tax included $2,485,000, $2,782,000 and $0 of integration charges in 2005, 2004 and 2003, respectively. The Golf Ball segment's loss before income tax included $6,016,000, $17,246,000 and $24,080,000 of integration charges in 2005, 2004 and 2003, respectively.

(2) In September 2005, the Company began the implementation of several company-wide restructuring initiatives designed to improve the Company's business processes and reduce the Company's overall expenses. The Company's income (loss) before tax includes the recognition of $8,324,000 in connection with these initiatives. As of December 31, 2005, the Golf Clubs segment's income before tax included restructuring charges of $3,976,000, and the Golf Ball segment's loss before tax balance included restructuring charges of $4,348,000.

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

(4) Identifiable assets are comprised of net inventory, certain property, plant and equipment, intangible assets and goodwill. Reconciling items represent unallocated corporate assets not segregated between the two segments.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	Year Ended December 31, 2005	2004 (In thousands)	2003
Net sales			
Drivers and Fairway Woods	$ 241,329	$ 238,555	$ 252,420
Irons(*)	316,501	259,058	280,758
Putters	109,309	100,482	142,814
Golf Balls	214,695	231,337	78,378
Accessories and Other(*)	116,259	105,132	59,662
	$ 998,093	$ 934,564	$ 814,032

(*) Beginning with the year ended December 31, 2004, the Company includes wedge sales within the iron sales product category. Previously, wedge sales were included as a component of the accessories and other category. Prior periods have been reclassified to conform with the current basis of presentation.

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

	Sales (In thousands)	Long-Lived Assets
2005		
United States	$ 563,040	$ 277,572
Europe	166,177	9,243
Japan	103,389	1,928
Rest of Asia	66,890	4,178
Other foreign countries	98,597	10,009
	$ 998,093	$ 302,930
2004		
United States	$ 546,219	$ 286,089
Europe	169,519	10,481
Japan	70,536	3,176
Rest of Asia	51,662	4,412
Other foreign countries	96,628	11,343
	$ 934,564	$ 315,501
2003		
United States	$ 449,424	$ 305,176
Europe	145,148	16,995
Japan	101,259	3,590
Rest of Asia	58,327	846
Other foreign countries	59,874	8,007
	$ 814,032	$ 334,614

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 15. Licensing Arrangements

The Company from time to time licenses its trademarks and service marks to third parties for use on products such as golf apparel, footwear, watches, luggage and other golf-related products, such as headwear, travel bags, golf towels and golf umbrellas. The Company has a current licensing arrangement with Ashworth, Inc. for a complete line of Callaway Golf men's and women's apparel for distribution in the United States, Canada, Europe, Australia, New Zealand and South Africa. The first full year in which the Company received royalty revenue under these licensing arrangements was 2003. The Company also has a current licensing arrangement with Sanei International Co., Ltd. ("Sanei") for a complete line of Callaway Golf men's and women's apparel for distribution in Asian Pacific markets including Japan, Korea, Hong Kong, Taiwan, Singapore, Indonesia, Malaysia, Thailand, Vietnam, Philippines, Brunei, Myanmar and China.

In addition to apparel, the Company has also entered into licensing arrangements with (i) Tour Golf Group, Inc. for a Callaway Golf footwear collection, (ii) Fossil, Inc. for a line of Callaway Golf watches and clocks, (iii) TRG Accessories, LLC for a collection consisting of travel gear, (iv) Global Wireless Entertainment, Inc. for the creation of golf-related software and applications for wireless handheld devices and platforms and (v) MicroVision Optical, Inc. for eyewear. The Company assumed certain license agreements Top-Flite had previously entered into with third parties to license the use of its Top-Flite, Ben Hogan and Strata brands on apparel and accessories.

Note 16. Transactions with Related Parties

The Callaway Golf Company Foundation (the "Foundation") oversees and administers charitable giving for the Company and makes grants to carefully selected organizations. Officers of the Company also serve as directors of the Foundation and the Company's employees provide accounting and administrative services for the Foundation. In 2005, the Company did not contribute to the Foundation. In 2004 and 2003, the Company recognized charitable contribution expense of $920,000 and $939,000, respectively, as a result of its unconditional promise to contribute such amounts to the Foundation.

In connection with the terms of the Company's former chief executive officer's separation from the Company, the Company purchased his primary residence at a cost of $1,715,000. The purchase price was determined based upon two independent appraisals. During March 2005, the Company was marketing the home and accounted for the home as a long-lived asset held for sale classified as other assets. In 2005, this residence was sold and the Company recorded a gain of $6,000.

In the latter part of 2003, the Company requested on short notice that one of its executive officers relocate to Chicopee, Massachusetts to be the President and Chief Operating Officer of the newly acquired Top-Flite business. In order to assist this officer with his relocation across country on such short notice (and because under the Sarbanes-Oxley Act of 2002 the Company is prohibited from making a loan to him), the Company purchased his residence in California at a cost of $2,000,000. The purchase price was determined based upon two independent appraisals. As of December 31, 2003, the Company was marketing the home and accounted for the home as a long-lived asset held for sale classified as other assets. In 2004, this residence was sold and the Company recorded a net loss of $27,000.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 17. Summarized Quarterly Data (Unaudited)

	Fiscal Year 2005 Quarters				
	1st	2nd	3rd	4th	Total[3][4]
	(In thousands, except per share data)				
Net sales	$ 299,857	$ 323,132	$ 220,611	$ 154,493	$ 998,093
Gross profit	$ 132,606	$ 146,733	$ 86,898	$ 48,177	$ 414,414
Net income (loss)	$ 18,360	$ 18,392	$ (4,804)	$ (18,664)	$ 13,284
Earnings (loss) per common share[1]					
Basic	$ 0.27	$ 0.27	$ (0.07)	$ (0.27)	$ 0.19
Diluted	$ 0.27	$ 0.27	$ (0.07)	$ (0.27)	$ 0.19

	Fiscal Year 2004 Quarters				
	1st	2nd[2]	3rd	4th	Total[3]
Net sales	$ 363,786	$ 297,908	$ 128,457	$ 144,413	$ 934,564
Gross profit	$ 166,191	$ 127,836	$ 26,071	$ 38,724	$ 358,822
Net income (loss)	$ 40,545	$ 13,715	$ (35,895)	$ (28,468)	$ (10,103)
Earnings (loss) per common share[1]					
Basic	$ 0.60	$ 0.20	$ (0.53)	$ (0.42)	$ (0.15)
Diluted	$ 0.59	$ 0.20	$ (0.53)	$ (0.42)	$ (0.15)

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

(2) On May 28, 2004, the Company acquired all of the issued and outstanding shares of stock of FrogTrader, Inc. Thus, the Company's financial data includes the FrogTrader, Inc. results of operations from May 28, 2004.

(3) The Company's gross profit, net income and earnings per common share include the recognition of certain integration charges related to the consolidation of its Callaway Golf and Top-Flite golf ball and golf club manufacturing and research and development operations. In connection with these integration charges, the Company's gross profit, net income and earnings per common share were reduced by approximately $6,388,000, $7,696,000 and $0.11, respectively, for the year ended December 31, 2005 and $15,689,000, $17,470,000 and $0.26, respectively, for the year ended December 31, 2004.

(4) In September 2005, the Company began the implementation of several company-wide restructuring initiatives designed to improve the Company's business processes and reduce the Company's overall expenses. In connection with these initiatives, the Company recorded pre-tax charges in the amount of $7,119,000 for employee termination benefits and $1,205,000 for facility closures and other costs for the year ended December 31, 2005. These charges reduced the Company's gross profit, net income and earnings per common share by approximately $2,119,000, $5,161,000 and $0.08, respectively, for the year ended December 31, 2005.

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SCHEDULE II

CALLAWAY GOLF COMPANY

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2005, 2004 and 2003

Date	Allowance for Doubtful Accounts	Reserve for Obsolete Inventory
	(Dollars in thousands)	
Balance, December 31, 2002	$ 5,474	$16,761
Provision	2,047	7,629
Write-off, disposals, costs and other, net	(1,329)	(5,784)
Balance, December 31, 2003	6,192	18,606
Provision	1,291	3,900
Write-off, disposals, costs and other, net	(113)	(8,905)
Balance, December 31, 2004	7,370	13,601
Provision	3,221	8,507
Write-off, disposals, costs and other, net	(2,187)	(5,430)
Balance, December 31, 2005	$ 8,404	$16,678

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EXHIBIT INDEX

Exhibit	Description
10.19	Form of Stock Option Grant for Officers.
10.20	Form of Restricted Stock Grant for Officers.
10.21	Form of Performance Unit Grant for Officers.
10.30	2005 Callaway Golf Company Executive Deferred Compensation Plan (Master Plan Document).
10.32	Trust Agreement for the Callaway Golf Company Executive Deferred Compensation Plans.
10.33	Callaway Golf Company Employee Stock Purchase Plan (as Amended and Restated Effective as of February 1, 2006).
10.47	Amendment No. 3 to Trust Agreement, effective as of November 1, 2005, by the Company with the consent of Union Bank of California, N.A.
10.50	Assignment and Assumption Agreement, effective as of January 1, 2006, among the Company, Arrowhead Trust Incorporated and Union Bank of California, N.A.
21.1	List of Subsidiaries.
23.1	Consent of Deloitte & Touche LLP.
24.1	Form of Limited Power of Attorney.
31.1	Certification of George Fellows pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Bradley J. Holiday pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of George Fellows and Bradley J. Holiday pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 10.19

STOCK OPTION GRANT

CALLAWAY GOLF COMPANY
ID: 95-3797580
2180 RUTHERFORD ROAD
CARLSBAD, CA 92008

PLAN: 2004 EQUITY INCENTIVE PLAN

1. Grant of Option. Effective __________ ("Effective Date"), you have been granted a Non-qualified Stock Option ("Option") to buy shares of Callaway Golf Company (the "Company") common stock upon the following terms:

SHARES	EXERCISE PRICE	SCHEDULED VESTING DATE	SCHEDULED EXPIRATION DATE

The Option is granted to you pursuant to the terms and conditions of this Stock Option Grant (this "Agreement"), and the Company's 2004 Equity Incentive Plan (as amended and restated from time to time, the "Plan"), the provisions of which Plan are by this reference incorporated in this Agreement. In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the provisions of the Plan shall be controlling. The Company has provided you with a copy of the Plan and a Prospectus for the Plan.

The exercise price must be paid in the form of cash, unless otherwise determined by the Board of Directors or Committee administering the plan ("Committee") in their sole discretion. Upon exercise of the Option, you must pay in the form of a check or cash or other cash equivalents to the Company any such additional amount as the Company determines that it is required to withhold under applicable laws in respect of such exercise. In this regard, you authorize the Company and/or its subsidiary to withhold all applicable tax-related items legally payable by you from your wages or other cash compensation paid to you by the Company and/or its subsidiary or from proceeds of the sale of shares of Common Stock. Alternatively, or in addition, if permissible under local law, the Company may (1) sell or arrange for the sale of shares of Common Stock that you acquire to meet the withholding obligation for tax-related items, and/or (2) withhold from the shares of Common Stock otherwise issuable to you upon the exercise of the Option that number of shares having an aggregate Fair Market Value (as defined in the Plan), determined as of the date the withholding tax obligation arises, equal to the amount of the total withholding tax obligation; provided, however, that, the number of shares so withheld shall not have an aggregate Fair Market Value in excess of the minimum required withholding. You acknowledge that the ultimate liability for all tax-related items legally due by you is and remains your responsibility and that Company and/or its subsidiary (a) makes no representations or undertakings regarding the treatment of any tax-related items in connection with any aspect of the option grant, including the grant, vesting or exercise of the option, the subsequent sale of shares of Common Stock acquired pursuant to such exercise and the receipt of any dividends; and (b) do not commit to structure the terms of the grant or any aspect of the option to reduce or eliminate your liability for tax-related items.

2. Vesting. Subject to Section 3 (Term and Termination) and Section 4 (Cancellation, Forfeiture and Rescission) of this Agreement, and subject to the accelerated vesting provisions, if any, set forth in any employment agreement between you and the Company or its subsidiary, as the same may be amended, modified, extended or renewed from time to time, the Option shall vest in accordance with the vesting schedule set forth above. The Committee may in its discretion accelerate the vesting schedule (in which case it may impose whatever conditions it considers appropriate on the accelerated portion). In addition, the entire Option shall vest and become exercisable immediately prior to any Change in Control, if you are an employee or consultant of the Company or its subsidiary at that time, provided, however, that the Board of Directors, or appropriate committee thereof, in its sole discretion, may provide that such Option does not vest and become exercisable immediately prior to any such Change in Control, and instead provide that the Option shall be assumed or that an equivalent option or right shall be substituted by a successor company, in which case the amount and price of such assumed or substituted option shall be determined by adjusting the amount and price of the Option consistent with the terms of the transaction giving rise to the Change in Control. Notwithstanding the foregoing, if the Committee elects to provide that the Option does not vest in connection with a Change in Control and your employment is terminated for any reason within one year following such Change in Control, then the entire assumed or substituted option shall vest and become exercisable immediately upon such termination of employment. For purposes hereof, "Change in Control" shall have the meaning set forth in **Exhibit A** attached hereto.

3. Term and Termination. Subject to Section 4 (Cancellation, Forfeiture and Rescission) hereof, the Option shall expire on the earlier of (i) the scheduled expiration date set forth above or (ii) in the case of an Option that has vested, one (1) year from the date on which you cease to be an employee or consultant of the Company or its subsidiary for any reason including death. Subject to Section 2 (Vesting), if you cease for any reason to be an employee of the Company or its subsidiary, that portion of the Option which has not yet vested shall be terminated.

4. Cancellation, Forfeiture and Rescission.

(a) If during your employment or during any period thereafter that you are receiving Special Severance from the Company, you directly or indirectly disclose or misuse any confidential information or trade secrets of the Company then:

(1) any unexercised portion of the Option is automatically cancelled as of the date you first committed the act or acts described above (the "Cancellation Date"); and

(2) any exercise of all or any portion of the Option exercised on or after the Cancellation Date or during the "Look-Back Period" preceding the Cancellation Date shall be rescinded, and you shall be required to pay to the Company, within ten days of receiving written notice from the Company, the amount of any gain realized as the result of any such rescinded exercise (the "Option Gain").

The Company shall notify you in writing of any such rescission within two years of any such exercise. If you are still an employee on the Cancellation Date, the "Look-Back Period" is ninety days. If you are no longer an employee on the Cancellation Date, the "Look-Back Period" is the longer of ninety days or the number of days elapsed from the date of termination of your employment to the Cancellation Date. For purposes of this Agreement, an "indirect" use of the Company's confidential information or trade secrets shall be presumed to have occurred if you take a comparable position with a competitor in which case you shall have the burden of proving that no use or disclosure of confidential information or trade secrets occurred or will occur. For purposes of this Agreement, and in the absence of proof of actual gain on the date of exercise, "Option Gain" shall mean the New York Stock Exchange closing price on the date of exercise minus the exercise price of the Option, multiplied by the number of shares you purchased upon the exercise, without regard to any subsequent market price decrease or increase.

(b) In lieu of paying to the Company any Option Gain required to be paid to Company pursuant to this Section 4, you may return to the Company the number of shares purchased upon exercise of the Option. You hereby agree that the Company may set off against any amount the Company may now or hereafter owe you the amount of any Option Gain required to be paid by you to Company under this Section 4. This Section 4 does not limit any other legal or equitable remedy available to the Company. As a condition of each exercise of all or any portion of the Option, you will be required to certify to the Company on a form of notice of exercise acceptable to the Company that you have not committed any of the acts described in paragraph (a) above.

You acknowledge that you have read each provision of this Section 4 and have had an opportunity to ask questions with respect to this Section. You acknowledge that you understand that the Company is granting the Option subject to the terms of this Section 4.

__________ (Optionee)

5. Severability. The provisions of this Agreement shall be deemed to be severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any person or any circumstance, is held to be invalid or unenforceable under present or future laws effective during the term of this Agreement, such provision shall be fully severed, and in lieu thereof there shall automatically be added as part of this Agreement a suitable and equitable provision in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision.

6. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Delaware and applicable federal law.

7. Irrevocable Arbitration of Disputes.

(a) You and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, that cannot be resolved by mutual agreement of the parties shall be submitted to binding arbitration. 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) You and the Company agree that the arbitrator shall have the authority to issue provisional relief. You and the Company further agree that each has the right, pursuant to California Code of Civil Procedure section 1281.8, to apply to a court for a provisional remedy in connection with an arbitrable dispute so as to prevent the arbitration from being rendered ineffective.

(c) Any demand for arbitration shall be in writing and must be communicated to the other party prior to the expiration of the applicable statute of limitations.

(d) The arbitration shall be administered by JAMS pursuant to its Employment Arbitration Rules and Procedures. The arbitration shall be conducted in San Diego by a former or retired judge or attorney with at least 10 years experience in employment-related disputes, or a non-attorney with like experience in the area of dispute, who shall have the power to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The parties must mutually agree on the arbitrator. If the parties cannot agree on the arbitrator after their best efforts, an arbitrator will be selected from JAMS pursuant to its Employment Arbitration Rules and Procedures. The Company shall pay the costs of the arbitrator's fees.

(e) The arbitration will be decided upon a written decision of the arbitrator stating the essential findings and conclusions upon which the award is based. The arbitrator shall have the authority to award damages, if any, to the extent that they are available under applicable law(s). The arbitration award shall be final and binding, and may be entered as a judgment in any court having competent jurisdiction. Either party may seek review pursuant to California Code of Civil Procedure section 1286, et seq.

(f) It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery only to those matters clearly relevant to the dispute. However, at a minimum, each party will be entitled to at least one (1) deposition and shall have access to essential documents and witnesses as determined by the arbitrator.

(g) The provisions of this Section shall survive the expiration or termination of the Agreement, and shall be binding upon the parties.

THE PARTIES HAVE READ SECTION 7 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

__________ ***(Company)*** __________ ***(Employee)***

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the Effective Date.

CALLAWAY GOLF COMPANY

By: ______________________________ ______________________________

EXHIBIT A

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

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

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

(c) Consummation by the Company of the sale, lease, exchange or other disposition (in one transaction or a series of related transactions) by the Company of all or substantially all of the Company's assets or a reorganization or merger or consolidation of the Company with any other person, entity or corporation, other than

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

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

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

Callaway Golf Company
Restricted Stock Grant

Recipient:
Effective Grant Date:
Number of Shares:
Plan: **2004 Equity Incentive Plan**

CALLAWAY GOLF COMPANY, a Delaware corporation (the "**Company**"), has elected to grant to you, the Recipient named above, an award of stock subject to the restrictions and on the terms and conditions set forth below. Terms not otherwise defined in this Restricted Stock Grant will have the meanings ascribed to them in the Plan identified above (the "**Plan**").

1. **Governing Plan.** The Recipient hereby acknowledges receipt of a copy of the Plan and a Prospectus for the Plan (the "**Plan Prospectus**"**)**. This Restricted Stock Grant is subject in all respects to the applicable provisions of the Plan, which are incorporated herein by this reference. In the case of any conflict between the provisions of the Plan and this Restricted Stock Grant, the provisions of the Plan will control.

2. **Grant of Restricted Stock.** Effective as of the Effective Grant Date identified above, the Company has granted and issued to the Recipient the Number of Shares of the Company's Common Stock identified above (the "**Restricted Stock**"), subject to the terms, conditions and restrictions set forth in this Restricted Stock Grant.

3. **Restrictions on the Granted Stock.** The Restricted Stock is subject to the following restrictions:

(a) **No Transfer.** The shares of Restricted Stock may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered until the restrictions set forth in this paragraph lapse or expire as provided in paragraph 4, and any additional requirements or restrictions contained in this Restricted Stock Grant have been satisfied, terminated or waived by the Company in writing.

(b) **Cancellation of Unvested Shares.** In the event Recipient ceases to be an employee of the Company or its subsidiary for any reason before the restrictions set forth in this paragraph have lapsed or expired as provided in paragraph 4, the Company will cancel and void all shares of Restricted Stock for which such restrictions have not lapsed or expired (i.e. unvested shares); *provided, however*, that the Board of Directors or its designee may, in its discretion, determine not to cancel and void all or part of such unvested shares, in which case the Board of Directors or designee may impose whatever conditions it considers appropriate on any shares that are not cancelled or voided.

(c) **Certificate.** The certificate(s) representing the Restricted Stock will remain in the physical custody of the Company or its designated agent until the restrictions set forth in this paragraph lapse or expire as provided in paragraph 4, and any additional requirements or restrictions contained in this Restricted Stock Grant have been satisfied, terminated or expressly waived by the Company in writing. Notwithstanding the foregoing, the Company may elect to maintain the shares in book-entry form with its transfer agent unless and until the Company is required to deliver the certificates hereunder.

(d) **Restrictive Legend.** The certificate(s) representing the Restricted Stock may bear a legend making reference to any restrictions (or other terms and conditions) imposed by this Restricted Stock Grant as the Company deems necessary or appropriate to enforce such restrictions (or other terms and conditions).

4. **Lapse of Restrictions.** The restrictions imposed under paragraph 3 will lapse and expire, and the shares of Restricted Stock will vest, in accordance with the following:

(a) **Vesting Schedule.** Subject to earlier cancellation, and subject to the accelerated vesting provisions, if any, set forth in any employment agreement between Recipient and the Company or its subsidiary, as the same may be amended, modified, extended or renewed from time to time, the restrictions imposed under paragraph 3 will lapse and be removed with respect to the number of shares of Restricted Stock set forth below in accordance with the vesting schedule set forth below (the "**Vesting Schedule**"):

Number of Shares	Date Restrictions Lapse

The Board of Directors or its designee, however, may, in its discretion, accelerate the Vesting Schedule (in which case, the Board of Directors or designee may impose whatever conditions it considers appropriate on the accelerated portion). In addition, the restrictions imposed under paragraph 3 will automatically lapse and be removed immediately prior to any Change in Control, if the Recipient is an employee or consultant of the Company or its subsidiary at that time, provided, however, that the Board of Directors, or appropriate committee thereof, in its sole discretion, may provide that such restrictions do not automatically lapse immediately prior to any such Change in Control, and instead provide that the Restricted Stock shall continue under the same terms and conditions or shall continue under the same terms and conditions with respect to shares of a successor company that may be issued in exchange or settlement of such Restricted Stock in connection with a Change in Control. Notwithstanding the foregoing, if the Committee elects to provide that such restrictions do not lapse in connection with a Change in Control and Recipient's employment is terminated for any reason within one year following such Change in Control, then such restrictions shall lapse and be removed immediately upon such termination of employment. For purposes hereof, "Change in Control" shall have the meaning set forth in Exhibit A attached hereto.

(b) **Payment of Taxes.** Upon the lapse of the restrictions in accordance with the foregoing, Recipient must pay in the form of a check or cash or other cash equivalents to the Company such amount as the Company determines it is required to withhold under applicable laws as a result of the lapse of such restrictions. In this regard, you authorize the Company and/or its subsidiary to withhold all applicable tax-related items legally payable by you from your wages or other cash compensation paid to you by the Company and/or its subsidiary or from proceeds of the sale of shares of Restricted Stock. Alternatively, or in addition, if permissible under local law, the Company may (1) sell or arrange for the sale of shares of Restricted Stock that you acquire to meet the withholding obligation for tax-related items, and/or (2) withhold from the shares of Restricted Stock for which the restrictions have lapsed that number of shares having an aggregate Fair Market Value (as defined in the Plan), determined as of the date the tax withholding obligation arises, equal to the amount of the total withholding tax obligation; provided, however, that, the number of shares so withheld shall not have an aggregate Fair Market Value in excess of the minimum required withholding. You acknowledge that the ultimate liability for all tax-related items legally due by you is and remains your responsibility and that Company and/or its subsidiary (a) makes no representations or undertakings regarding the treatment of any tax-related items in connection with any aspect of the Restricted Stock, including the grant or vesting or and subsequent sale of shares of Restricted Stock or the receipt of any dividends; and (b) do not commit to structure the terms of the grant or any aspect of the Restricted Stock to reduce or eliminate your liability for tax-related items.

(c) **Release of Certificate.** As soon as practicable after the lapse and removal of the restrictions applicable to all or any portion of the Restricted Stock as provided in this paragraph, the Company will release (or cause to be issued) certificate(s) representing such Restricted Stock to the Recipient, provided that the Recipient has paid to the Company, by cash or check or by any other method permitted by paragraph 4(b), an amount sufficient to satisfy any taxes or other amounts required by any governmental authority to be withheld and paid over to such authority for the Recipient's account, or otherwise made arrangements satisfactory to the Company for the payment of such amounts through withholding or otherwise.

5. **Voting and Other Rights.** Notwithstanding anything to the contrary in the foregoing, during the period prior to the lapse and removal of the restrictions set forth in paragraph 3, except as otherwise provided herein, the Recipient will have all of the rights of a shareholder with respect to all of the Restricted Stock, including without limitation the right to vote the Restricted Stock and the right to receive all dividends or other distributions with respect to the Restricted Stock. In connection with the payment of such dividends or other distributions, the Company will be entitled to deduct any taxes or other amounts required by any governmental authority to be withheld and paid over to such authority for the Recipient's account.

6. **Section 83(b) Election.** The Recipient will be entitled to make an election pursuant to Section 83(b) of the Internal Revenue Code, or comparable provisions of any state tax law, to include in the Recipient's gross income the amount by which the fair market value of the Restricted Stock the Recipient acquires exceeds the consideration paid for such shares *only if*, prior to making any such election, the Recipient (a) timely notifies the Company in writing of the Recipient's intention to make such election by delivering to the Company a copy of a fully-executed Section 83(b) Election Form approved by the Company and (b) pays to the Company an amount sufficient to satisfy any taxes or other amounts required by any governmental authority to be withheld or paid over to such authority for the Recipient's account, or otherwise makes arrangements satisfactory to the Company for the payment of such amounts through withholding or otherwise. **Recipient hereby acknowledges that (i) the foregoing does not set forth all the requirements for effecting a valid 83(b) election, (ii) that Recipient will need to take additional action, including making certain filings with the Internal Revenue Service to make a valid 83(b) election and (iii) that the Company has no responsibility for ensuring that Recipient satisfies the requirements for a valid 83(b) election.**

7. **Taxable Event. The Recipient acknowledges that the Restricted Stock will have significant tax consequences to the Recipient and Recipient is hereby advised to consult with Recipient's own tax advisors concerning such tax consequences.** A general description of the U.S. federal income tax consequences related to restricted stock awards is set forth in the Plan Prospectus.

8. **Severability.** The provisions of this Agreement shall be deemed to be severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any person or any circumstance, is held to be invalid or unenforceable under present or future laws effective during the term of this Agreement, such provision shall be fully severed, and in lieu thereof there shall automatically be added as part of this Agreement a suitable and equitable provision in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision.

9. **Governing Law.** This Restricted Stock Grant will be governed by and construed in accordance with the laws of the State of Delaware and applicable federal law.

10. **Irrevocable Arbitration of Disputes.**

(a) You and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, that cannot be resolved by mutual agreement of the parties shall be submitted to binding arbitration. 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) You and the Company agree that the arbitrator shall have the authority to issue provisional relief. You and the Company further agree that each has the right, pursuant to California Code of Civil Procedure section 1281.8, to apply to a court for a provisional remedy in connection with an arbitrable dispute so as to prevent the arbitration from being rendered ineffective.

(c) Any demand for arbitration shall be in writing and must be communicated to the other party prior to the expiration of the applicable statute of limitations.

(d) The arbitration shall be administered by JAMS pursuant to its Employment Arbitration Rules and Procedures. The arbitration shall be conducted in San Diego by a former or retired judge or attorney with at least 10 years experience in employment-related disputes, or a non-attorney with like experience in the area of dispute, who shall have the power to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The parties must mutually agree on the arbitrator. If the parties cannot agree on the arbitrator after their best efforts, an arbitrator will be selected from JAMS pursuant to its Employment Arbitration Rules and Procedures. The Company shall pay the costs of the arbitrator's fees.

(e) The arbitration will be decided upon a written decision of the arbitrator stating the essential findings and conclusions upon which the award is based. The arbitrator shall have the authority to award damages, if any, to the extent that they are available under applicable law(s). The arbitration award shall be final and binding, and may be entered as a judgment in any court having competent jurisdiction. Either party may seek review pursuant to California Code of Civil Procedure section 1286, et seq.

(f) It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the

number of depositions or interrogatories) and by restricting the scope of discovery only to those matters clearly relevant to the dispute. However, at a minimum, each party will be entitled to at least one (1) deposition and shall have access to essential documents and witnesses as determined by the arbitrator.

(g) The provisions of this Section shall survive the expiration or termination of the Agreement, and shall be binding upon the parties.

THE PARTIES HAVE READ SECTION 10 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

__________ ***(Company)*** __________ ***(Employee)***

IN WITNESS WHEREOF, the Company and Recipient have executed this Restricted Stock Grant effective as of the Effective Grant Date.

CALLAWAY GOLF COMPANY	RECIPIENT
By: ______________________________	______________________________

EXHIBIT A

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

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

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

(c) Consummation by the Company of the sale, lease, exchange or other disposition (in one transaction or a series of related transactions) by the Company of all or substantially all of the Company’s assets or a reorganization or merger or consolidation of the Company with any other person, entity or corporation, other than

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

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

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

Callaway Golf Company
Performance Unit Grant

Recipient:	
Effective Grant Date:	
Number of Units:	
Plan:	**2004 Equity Incentive Plan**

CALLAWAY GOLF COMPANY, a Delaware corporation (the "**Company**"), has elected to grant to you, the Recipient named above, a performance share unit award subject to the restrictions and on the terms and conditions set forth below. Terms not otherwise defined in this Performance Unit Grant will have the meanings ascribed to them in the Plan identified above (the "**Plan**").

1. **Governing Plan.** The Recipient hereby acknowledges receipt of a copy of the Plan and a Prospectus for the Plan (the "**Plan Prospectus**"). This Performance Unit Grant is subject in all respects to the applicable provisions of the Plan, which are incorporated herein by this reference. In the case of any conflict between the provisions of the Plan and this Performance Unit Grant, the provisions of the Plan will control.

2. **Grant of Performance Unit.** Effective as of the Effective Grant Date identified above, the Company has granted and issued to the Recipient the Number of Performance Units with respect to the Company's Common Stock identified above (the "**PSUs**"), subject to the terms, conditions and restrictions set forth in this Performance Unit Grant.

3. **Restrictions on the PSU.** The PSU is subject to the following restrictions:

(a) **No Transfer.** The PSU and the shares of Common Stock it represents may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered until shares are actually issued when the restrictions set forth in paragraph 4 expire, and any additional requirements or restrictions contained in this Performance Unit Grant have been satisfied, terminated or waived by the Company in writing.

(b) **Cancellation of Unvested Shares.** In the event Recipient ceases to be an employee of the Company or its subsidiary for any reason before the restrictions set forth in paragraph 4 expire, this award shall be cancelled and no additional shares of Common Stock shall be issued pursuant hereto; *provided*, *however*, that the Compensation and Management Succession Committee of the Board of Directors (the "Committee") or its designee may, in its discretion, determine not to cancel and void all or part of such unvested award, in which case the Committee or its designee may impose whatever conditions it considers appropriate.

4. **Lapse of Restrictions.** The restrictions imposed under paragraph 3 will lapse and expire, and the PSU will vest, in accordance with the following:

(a) **Vesting Schedule.** Subject to earlier cancellation, and subject to the accelerated vesting provisions, if any, set forth in any employment agreement between Recipient and the Company or its subsidiary, as the same may be amended, modified, extended or renewed from time to time, the restrictions imposed under paragraph 3 will lapse and be removed in accordance with the vesting schedule set forth in Exhibit B attached hereto (the "Vesting Schedule").

The Board of Directors or its designee, however, may, in its discretion, accelerate the Vesting Schedule (in which case, the Committee or designee may impose whatever conditions it considers appropriate on the accelerated portion). In addition, the restrictions imposed under paragraph 3 will automatically lapse and be removed immediately prior to any Change in Control, if the Recipient is an employee or consultant of the Company or its subsidiary at that time, provided, however, that the Committee, in its sole discretion, may provide that such restrictions do not automatically lapse immediately prior to any such Change in Control, and instead provide that the PSUs shall continue under the same terms and conditions or shall continue under the same terms and conditions with respect to shares of a successor company that may be issued in exchange or settlement of such PSUs in connection with a Change in Control. Notwithstanding the foregoing, if the Committee elects to provide that such restrictions do not lapse in connection with a Change in Control and Recipient's employment is terminated for any reason within one year following such Change in Control, then such restrictions shall lapse and be removed immediately upon such termination of employment. For purposes hereof, "Change in Control" shall have the meaning set forth in Exhibit A attached hereto.

(b) **Effect of Vesting.** Unless deferred under a deferred compensation plan sponsored by the Company, effective as of the date each PSU vests, the Company shall deliver to the Recipient the number of shares of Common Stock represented by the PSU that vest on such date in accordance with Exhibit B attached hereto.

(c) **Payment of Taxes.** Upon issuance of Common Stock in accordance with the foregoing, Recipient must pay in the form of a check or cash or other cash equivalents to the Company such amount as the Company determines it is required to withhold under applicable laws as a result of such issuance. In this regard, Recipient authorizes the Company and/or its subsidiary to withhold all applicable tax-related items legally payable by Recipient from his or her wages or other cash compensation paid to Recipient by the Company and/or its subsidiary or from proceeds of the sale of shares of Common Stock. Alternatively, or in addition, if permissible under local law, the Company may (1) sell or arrange for the sale of shares of Common Stock that Recipient acquires to meet the withholding obligation for tax-related items, and/or (2) withhold from the shares of Common Stock otherwise issuable to Recipient upon the vesting of the PSU that number of shares having an aggregate Fair Market Value (as defined in the Plan), determined as of the date the withholding tax obligation arises, equal to the amount of the total withholding tax obligation; provided, however, that the number of shares so withheld shall not have an aggregate Fair Market Value in excess of the minimum required withholding. Recipient acknowledges that the ultimate liability for all tax-related items legally due by Recipient is and remains Recipient's responsibility and that Company and/or Recipient's employer (a) make no representations or undertakings regarding the treatment of any tax-related items in connection with any aspect of the PSU grant, including the grant or vesting of the PSU, the subsequent sale of shares of Common Stock acquired pursuant to such vesting and the receipt of any dividends; and (b) do not commit to structure the terms of the grant or any aspect of the PSU to reduce or eliminate Recipient's liability for tax-related items.

5. **Voting and Other Rights.** Notwithstanding anything to the contrary in the foregoing, until the issuance of shares of Common Stock pursuant to Section 4(b), the Recipient shall not have any right in, to or with respect to any of the shares of Common Stock (including any voting rights or rights with respect to dividends paid on the Common Stock) issuable under this Agreement until the shares are actually transferred to the Recipient following the applicable vesting date.

6. **Taxable Event. The Recipient acknowledges that the PSU will have significant tax consequences to the Recipient and Recipient is hereby advised to consult with Recipient's own tax advisors concerning such tax consequences.** A general description of the U.S. federal income tax consequences related to awards under the Plan is set forth in the Plan Prospectus.

7. **Severability.** The provisions of this Agreement shall be deemed to be severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any person or any circumstance, is held to be invalid or unenforceable under present or future laws effective during the term of this Agreement, such provision shall be fully severed, and in lieu thereof there shall automatically be added as part of this Agreement a suitable and equitable provision in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision.

8. **Governing Law.** This Performance Unit Grant will be governed by and construed in accordance with the laws of the State of Delaware and applicable federal law.

9. **Irrevocable Arbitration of Disputes.**

(a) You and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, that cannot be resolved by mutual agreement of the parties shall be submitted to binding arbitration. 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) You and the Company agree that the arbitrator shall have the authority to issue provisional relief. You and the Company further agree that each has the right, pursuant to California Code of Civil Procedure section 1281.8, to apply to a court for a provisional remedy in connection with an arbitrable dispute so as to prevent the arbitration from being rendered ineffective.

(c) Any demand for arbitration shall be in writing and must be communicated to the other party prior to the expiration of the applicable statute of limitations.

(d) The arbitration shall be administered by JAMS pursuant to its Employment Arbitration Rules and Procedures. The arbitration shall be conducted in San Diego by a former or retired judge or attorney with at least 10 years experience in employment-related disputes, or a non-attorney with like experience in the area of dispute, who shall have the power to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The parties must mutually agree on the arbitrator. If the parties cannot agree on the arbitrator after their best efforts, an arbitrator will be selected from JAMS pursuant to its Employment Arbitration Rules and Procedures. The Company shall pay the costs of the arbitrator's fees.

(e) The arbitration will be decided upon a written decision of the arbitrator stating the essential findings and conclusions upon which the award is based. The

arbitrator shall have the authority to award damages, if any, to the extent that they are available under applicable law(s). The arbitration award shall be final and binding, and may be entered as a judgment in any court having competent jurisdiction. Either party may seek review pursuant to California Code of Civil Procedure section 1286, et seq.

(f) It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery only to those matters clearly relevant to the dispute. However, at a minimum, each party will be entitled to at least one (1) deposition and shall have access to essential documents and witnesses as determined by the arbitrator.

(g) The provisions of this Section shall survive the expiration or termination of the Agreement, and shall be binding upon the parties.

THE PARTIES HAVE READ SECTION 9 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

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

IN WITNESS WHEREOF, the Company and Recipient have executed this Performance Unit Grant effective as of the Effective Grant Date.

CALLAWAY GOLF COMPANY RECIPIENT

By:______________________________ ______________________________

EXHIBIT A

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

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

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

(c) Consummation by the Company of the sale, lease, exchange or other disposition (in one transaction or a series of related transactions) by the Company of all or substantially all of the Company's assets or a reorganization or merger or consolidation of the Company with any other person, entity or corporation, other than

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

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

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

Exhibit B

Performance Units:

The performance units vest on January 27, 2009. Subject to achievement of the performance metrics described below, upon vesting, the recipient will be entitled to the number of shares determined under the payout levels described below. For example, 1,000 performance units would equal 500 shares at Threshold performance; 1,000 shares at Target performance and 1,500 shares at Maximum performance. There are no shares awarded below Threshold performance and no additional shares for exceeding Maximum performance.

Performance Metric:

- Average Economic Profit Spread over 3-year period (i.e. 2006-2008)

Definitions:

- Economic Profit Margin = Return on Invested Capital (ROIC) less Weighted Average Cost of Capital (WACC)
  - ROIC = Net Operating Profit After Tax (NOPAT) divided by Average Invested Capital
    - NOPAT excludes one time charges and stock option/restricted stock/performance share expenses and deferred compensation expenses
    - Invested Capital = Shareholders Equity plus Interest Bearing Debt
      - Invested Capital will be calculated as a five quarter average each year
  - WACC = Weighted Average Cost of Debt and Equity
    - WACC will be set at the beginning of each 3-year period and remain fixed over the performance period

Payout Levels:

- Target (100% payout of performance shares)
  - Average Economic Profit Spread = 0.75%
    - Average ROIC = 11.25%
    - WACC = 10.50%
- Threshold (50% payout of performance shares)
  - Average Economic Profit Spread = 0.00%
    - Average ROIC = 10.50%
    - WACC = 10.50%
- Maximum (150% payout of performance shares)
  - Average Economic Profit Spread = 1.50%
    - Average ROIC = 12.00%
    - WACC = 10.50%

Performance between payout levels will be interpolated.

Exhibit 10.30

2005 Callaway Golf Company Executive Deferred Compensation Plan
Master Plan Document
Effective January 1, 2005

Callaway Golf Company
2180 Rutherford Road
Carlsbad, CA 92008

2005 Callaway Golf Company Executive Deferred Compensation Plan
Master Plan Document
Effective January 1, 2005

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2005 CALLAWAY GOLF COMPANY EXECUTIVE DEFERRED COMPENSATION PLAN

Effective January 1, 2005

Purpose

The purpose of this Plan is to provide specified benefits to a select group of management and highly compensated Employees and Directors who contribute materially to the continued growth, development and future business success of Callaway Golf Company, a Delaware corporation, and its subsidiaries, if any, that sponsor this Plan. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.

ARTICLE 1
Definitions

For purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

1.1 "Account Balance" shall mean, with respect to a Participant, a credit on the records of the Employer equal to the sum of (i) the Deferral Account balance, (ii) the vested Company Matching Account balance, and (iii) the vested Company Contribution Account balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.

1.2 "Annual Base Salary" shall mean the annual cash compensation relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar ear, excluding bonuses, commissions, overtime, fringe benefits, stock options, restricted stock, relocation expenses, unused and unpaid excess vacation days, incentive payments, non-monetary awards, directors fees and other fees, automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Employee's gross income). Annual Base Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of any Employer and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), 402(h), or 403(b) pursuant to plans established by any Employer; provided, however, that all such amounts will be included in compensation only to the extent that, had there been no such plan, the amount would have been payable in cash to the Employee.

1.3 "Annual Bonus" shall mean any compensation, in addition to Annual Base Salary, relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, payable to a Participant as an Employee under any Employer's annual bonus and cash incentive plans, excluding stock options and restricted stock.

1.4 "Annual Company Contribution Amount" shall mean, for any one Plan Year, the amount determined in accordance with Section 3.6.

1.5 "Annual Company Matching Amount" shall mean, for any one Plan Year, the amount determined in accordance with Section 3.5.

1.6 "Annual Deferral Amount" shall mean that portion of a Participant's Annual Base Salary, Annual Bonus, Commissions and Directors Fees that a Participant elects to have, and is deferred, in accordance with Article 3, for any one Plan Year. In the event of a Participant's Disability (if deferrals cease in accordance with Section 7.1), death, or a Termination of Employment prior to the end of a Plan Year, such year's Annual Deferral Amount shall be the actual amount withheld prior to such event.

1.7 "Annual Installment Method" shall be an annual installment payment over the number of years (not to exceed 10) selected by the Participant in accordance with this Plan, calculated as follows: The Account Balance of the Participant shall be calculated as of the most recent Valuation Date. The annual installment shall be calculated by multiplying this balance by a fraction, the numerator of which is one, and the denominator of which is the remaining number of annual payments due the Participant. By way of example, if the Participant elects a 10-year Annual Installment Method, the first payment shall be 1/10 of the Account Balance as of the most recent Valuation Date. The following year, the payment shall be 1/9 of the Account Balance as of the most recent Valuation Date. Each annual installment shall be paid as soon as practicable after the amount is calculated, but not later than thirty days after the Valuation Date.

1.8 "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 8, that are entitled to receive benefits under this Plan upon the death of a Participant.

1.9 "Beneficiary Designation Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries.

1.10 "Board" shall mean the board of directors of the Company or a committee of the Board.

1.11 "Change in Control" shall mean the first to occur of any of a change in the ownership of the Company, a change in the effective control of the Company, or a change in the ownership of a substantial portion of the assets of the Company (as these events are defined in Prop. Reg. § 1.409A-3(g), or as these definitions may later be modified by final regulation or other regulatory pronouncement).

1.12 "Claimant" shall have the meaning set forth in Section 13.1.

1.13 "Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.

1.14 "Commissions" shall mean any compensation in addition to Annual Base Salary and Annual Bonus relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, payable to a Participant as an Employee under any Employer's commission agreement.

1.15 "Committee" shall mean the committee described in Article 11.

1.16 "Company" shall mean Callaway Golf Company, a Delaware corporation, and any successor to all or substantially all of the Company's assets or business.

1.17 "Company Contribution Account" shall mean (i) the sum of the Participant's Annual Company Contribution Amounts, plus (ii) amounts credited (net of amounts debited) in accordance with all the applicable crediting provisions of this Plan that relate to the Participant's Company Contribution Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Company Contribution Account.

1.18 "Company Matching Account" shall mean (i) the sum of all of a Participant's Annual Company Matching Amounts, plus (ii) amounts credited (net of amounts debited) in accordance with all the applicable provisions of this Plan that relate to the Participant's Company Matching Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Company Matching Account.

1.19 "Deduction Limitation" shall mean the following described limitation on a benefit that may otherwise be distributable pursuant to the provisions of this Plan. Except as otherwise provided, this limitation shall be applied to all distributions that are "subject to the Deduction Limitation" under this Plan. If an Employer determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year of the Employer would not be deductible by the Employer solely by reason of the limitation under Code Section 162(m), then to the extent deemed necessary by the Employer to ensure that the entire amount of any distribution to the Participant pursuant to this Plan prior to the Change in Control is deductible, the Employer may defer all or any portion of a distribution under this Plan. Any amounts deferred pursuant to this limitation shall continue to be credited/debited with additional amounts in accordance with Section 3.9 below, even if such amount is being paid out in installments. The amounts so deferred and amounts credited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant's death) at the earliest possible date, as determined by the Employer in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Employer during which the distribution is made will not be limited by Section 162(m), or if earlier, the effective date of a Change in Control. Notwithstanding anything to the contrary in this Plan, the Deduction Limitation shall not apply to any distributions made after a Change in Control.

1.20 “Deferral Account” shall mean (i) the sum of all of a Participant’s Annual Deferral Amounts, plus (ii) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant’s Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.

1.21 “Director” shall mean any member of the board of directors of the Employer.

1.22 “Director Fees” shall mean the annual fees paid by any Employer, including retainer fees and meeting fees, as compensation for serving on the board of directors.

1.23 “Disability” (or, where the context requires, “Disabled”) shall mean a period of disability during which a Participant is receiving income replacement benefits for a period of not less than 3 months under an accident and health plan sponsored by his or her Employer by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, as determined in the sole discretion of the Committee. In addition, Disability shall mean the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, as determined by the Committee in its sole discretion.

1.24 “Disability Benefit” shall mean the benefit set forth in Article 7.

1.25 “Election Form” shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to make an election under the Plan. A Participant may determine, with respect to each year’s Annual Deferral Amount, the time and manner in which such amounts shall be distributed.

1.26 “Employee” shall mean a person who is an employee of any Employer.

1.27 “Employer(s)” shall mean the Company and/or any of its subsidiaries (now in existence or hereafter formed or acquired) that have been selected by the Board to participate in the Plan and have adopted the Plan as a sponsor.

1.28 “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

1.29 “Identification Date” shall mean the 12-month period ending each December 31.

1.30 "Participant" shall mean any Employee or Director (i) who is selected to participate in the Plan, (ii) who elects to participate in the Plan, (iii) who signs a Plan Agreement, an Election Form and a Beneficiary Designation Form, (iv) whose signed Plan Agreement, Election Form and Beneficiary Designation Form are accepted by the Committee, (v) who commences participation in the Plan, and (vi) whose Plan Agreement has not terminated. A spouse or former spouse of a Participant shall not be treated as a Participant in the Plan or have an account balance under the Plan, even if he or she has an interest in the Participant's benefits under the Plan as a result of applicable law or property settlements resulting from legal separation or divorce.

1.31 "Plan" shall mean the 2005 Callaway Golf Company Executive Deferred Compensation Plan, which shall be evidenced by this instrument and by each Plan Agreement, as they may be amended from time to time.

1.32 "Plan Agreement" shall mean a written agreement, as may be amended from time to time, which is entered into by and between an Employer and a Participant. Each Plan Agreement executed by a Participant and the Participant's Employer shall provide for the entire benefit to which such Participant is entitled under the Plan; should there be more than one Plan Agreement, the Plan Agreement bearing the latest date of acceptance by the Employer shall supersede all previous Plan Agreements in their entirety and shall govern such entitlement. The terms of any Plan Agreement may be different for any Participant, and any Plan Agreement may provide additional benefits not set forth in the Plan or limit the benefits otherwise provided under the Plan; provided, however, that any such additional benefits or benefit limitations must be agreed to by both the Employer and the Participant.

1.33 "Plan Year" shall mean a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.

1.34 "401(k) Plan" shall be that certain Callaway Golf Company defined contribution plan intended to satisfy the requirements of Sections 401(a), 401(k), 401(m), and 414(i) of the Code, as adopted by the Company.

1.35 "Separation from Service" shall mean the Participant's termination of employment from the Company, subject to the following conditions:

a) If the Participant takes a leave of absence from the Company for purposes of military leave, sick leave, or other bona fide leave of absence, the Participant's employment will be deemed to continue for the first six months of the leave of absence, or if longer, for so long as the Participant's right to reemployment is provided by either by statute or by contract. If the period of the leave exceeds six months and the Participant's right to reemployment is not provided by either statute or contract, the Participant will be considered to have incurred a Separation from Service on the first day of the seventh month of the leave of absence.

b) If the Participant provides insignificant services to the Company, the Participant will be deemed to have incurred a Separation from Service. For this purpose, the Participant is considered to be providing insignificant services if he provides services at an annual rate that is less than twenty percent of the services rendered by such individual, on average, during the immediately preceding three calendar years of employment (or such lesser period of employment) or the annual remuneration for such services is less than twenty percent of the average annual remuneration earned during the final three full calendar years of employment (or such less period of employment).

c) If the Participant continues to provide services to the Company in a capacity other than as an employee, the Participant will not be deemed to have a Separated from Service if the Participant is providing services at an annual rate that is at least fifty percent of the services rendered by such individual, on average, during the immediately preceding three calendar years of employment (or such lesser period of employment) and the annual remuneration for such services is at least fifty percent of the average annual remuneration earned during the final three full calendar years of employment (or such less period of employment).

1.36 “Short-Term Payout” shall mean the payout set forth in Section 4.1.

1.37 “Survivor Benefit” shall mean the benefit set forth in Article 5.

1.38 “Termination Benefit” shall mean the benefit set forth in Article 6.

1.39 “Termination of Employment” or “Terminate” shall mean the severing of employment with all Employers, or service as a Director of all Employers, voluntarily or involuntarily, for any reason other than Disability, death or an authorized leave of absence. If a Participant is both an Employee and a Director, a Termination of Employment shall occur only upon the termination of the last position held. Notwithstanding the foregoing, a Termination of Employment shall only occur under this Plan if such Termination of Employment constitutes a “Separation from Service” under Code Section 409A (as defined above).

1.40 “Trust” shall mean one or more trusts established pursuant to that certain Master Trust

Agreement, dated as of May 6, 2002 between the Company and the Trustee named therein, as amended from time to time.

1.41 "Unforeseeable Financial Emergency" shall mean an unanticipated emergency that is caused by an event beyond the control of the Participant that would result in severe financial hardship to the Participant resulting from (i) a sudden and unexpected illness or accident of the Participant or a dependent of the Participant, (ii) a loss of the Participant's property due to casualty, or (iii) such other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Committee.

1.42 "Years of Service" shall mean the total number of years in which a Participant has been employed by one or more Employers. For purposes of this definition, a year of employment shall be a 365 day period (or 366 day period in case of a leap year) that, for the first year of employment, commences on the Employee's date of hiring and that, for any subsequent year, commences on an anniversary of that hiring date. The Committee shall make a determination as to the number of Years of Service a Participant shall be deemed to have completed, including whether any partial year of employment shall be counted, and any such determination may, in the sole discretion of the Committee, take into account any similar definitions or provisions contained in the Qualified Plan.

ARTICLE 2
Selection/Enrollment/Eligibility

2.1 **Selection by Committee**. Participation in the Plan shall be limited to a select group of management and highly compensated Employees and Directors of the Employers, as determined by the Committee in its sole discretion. From that group, the Committee shall select, in its sole discretion, Employees and Directors to participate in the Plan.

2.2 **Enrollment Requirements**. As a condition to participation, each selected Employee or Director shall complete, execute and return to the Committee a Plan Agreement, an Election Form and a Beneficiary Designation Form, all within thirty (30) days after he or she is selected to participate in the Plan. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary.

2.3 **Eligibility; Commencement of Participation**. Provided an Employee or Director selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Committee, including returning all required documents to the Committee within the specified time period, that Employee or Director shall commence participation in the Plan on the first day of the month following the month in which the Employee or Director completes all enrollment requirements. If an Employee or a Director fails to meet all such requirements within the period required, in accordance with Section 2.2, that Employee or Director shall not be eligible to participate in the Plan until the first day of the Plan Year following the delivery to and acceptance by the Committee of the required documents.

2.4 **Termination of Participation and/or Deferrals**. If the Committee determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated employees, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee shall have the right, in its sole discretion, to (i) terminate any deferral election the Participant has made for the remainder of the Plan Year in which the Participant's membership status changes, and (ii) prevent the Participant from making future deferrals.

ARTICLE 3
Deferral Commitments/Company Matching Amounts/Company Contribution Amounts/Vesting/Crediting/Taxes

3.1 **Minimum Deferrals**.

(a) **Annual Base Salary, Annual Bonus and Director Fees**. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Annual Base Salary, Annual Bonus, Commissions and/or Director Fees in the following minimum amount:

Deferral	Minimum Amount
Annual Base Salary, Commissions and/or Annual Bonus	$5,000 aggregate
Director Fees	$ 0

If an election is made for less than such minimums or if no election is made, the amount deferred shall be zero.

(b) **Short Plan Year**. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, the minimum Annual Deferral Amount shall be an amount equal to the minimum set forth above, multiplied by a fraction, the numerator of which is the number of complete months remaining in the Plan Year and the denominator of which is 12.

3.2 **Maximum Deferral**.

(a) **Annual Base Salary, Annual Bonus and Directors Fees**. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Annual Base Salary, Annual Bonus and/or Director Fees up to the following maximum percentages for each deferral elected:

Deferral	Maximum Amount
Annual Base Salary	75%
Commissions	100%
Annual Bonus	100%
Director Fees	100%

(b) **Short Plan Year**. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, or in the case of the First Plan Year of the Plan itself, the maximum Annual Deferral Amount with respect to Annual Base Salary, Annual Bonus and/or Director Fees shall be limited to the amount of compensation not yet earned by the Participant as of the date the Participant submits a Plan Agreement and Election Form to the Committee for acceptance.

3.3 **Election to Defer; Effect of Election Form**.

(a) **First Plan Year**. In connection with a Participant’s commencement of participation in the Plan, the Participant shall make an irrevocable deferral election of future compensation for the Plan Year in which the Participant commences participation in the Plan, along with such other elections as the Committee deems necessary or desirable under the Plan. For these elections to be valid, the Election Form must be completed and signed by the Participant, timely delivered to the Committee (in accordance with Section 2.2 above) and accepted by the Committee. Notwithstanding the foregoing, with respect to the 2005 Plan Year, Participants are required to submit the Election Form for the deferral of Annual Base Salary earned after March 15, 2005, prior to March 15, 2005. The deadline for submitting the Election Form for the 2005 Annual Bonus is June 30, 2005.

(b) **Subsequent Plan Years**. For each succeeding Plan Year, an irrevocable deferral election for that Plan Year, and such other elections as the Committee deems necessary or desirable under the Plan, shall be made by timely delivering to the Committee, in accordance with its rules and procedures, before the end of the Plan Year preceding the Plan Year for which the election is made, a new Election Form. If no such Election Form is timely delivered for a Plan Year, the Annual Deferral Amount shall be zero for that Plan Year.

(c) **Revocation of 2005 Elections**. On or before December 31, 2005, a Participant may cancel his or her deferral election that was effective for the 2005 Plan Year. All amounts subject to the cancellation will be included in the Participant's taxable income in 2005.

3.4 **Withholding of Annual Deferral Amounts**. For each Plan Year, the Annual Base Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled Annual Base Salary payroll in equal amounts over each pay period, as adjusted from time to time for increases and decreases in Annual Base Salary. The Commissions, Annual Bonus and/or Director Fees portion of the Annual Deferral Amount shall be withheld at the time the Commissions, Annual Bonus or Director Fees are or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself.

3.5 **Annual Company Matching Amount**. For each Plan Year, the Company, at its sole discretion, shall determine whether to credit Participants with an Annual Company Matching Amount. A Participant's Annual Company Matching Amount, if any, shall be a sum not to exceed all Pay Period Company Matching Contributions, if any, for the Plan Year. For this purpose, a Pay Period Company Matching Contribution shall mean an amount which, when added to the matching contribution allocated to the Participant's account under the 401(k) Plan for the same pay period, equals the match the Participant would have received under the 401(k) Plan during the corresponding plan year of the 401(k) Plan, if the portion of Annual Base Salary elected to be deferred had instead been elected and contributed as a salary deferral contribution under the 401(k) Plan (determined as if the 401(k) Plan was not subject to the limitations imposed under Code Sections 401(a)(17), 401(k)(3), 402(g) and 415). The Company shall, at its discretion, determine when to credit any Plan Year's Annual Company Matching Amount. Notwithstanding any provision of this Plan to the contrary, the Company shall have the right, in its sole and absolute discretion, to alter the manner in which the Annual Company Matching Amount is calculated.

3.6 **Annual Company Contribution Amount**. For each Plan Year, an Employer, in its sole discretion, may, but is not required to, credit any amount it desires to any Participant's Company Contribution Account under this Plan, which amount shall be for that Participant the Annual Company Contribution Amount for that Plan Year. The amount so credited to a Participant may be smaller or larger than the amount credited to any other Participant, and the amount credited to any Participant for a Plan Year may be zero, even though one or more other Participants receive an Annual Company Contribution Amount for that Plan Year. The Annual Company Contribution Amount, if any, shall be credited as of any date within the Plan Year as selected by the Company. If a Participant is not employed by an Employer as of such date, other than by reason of his or her death while employed, the Annual Company Contribution Amount for that Plan Year shall be zero.

3.7 **Investment of Trust Assets**. The Trustee of the Trust shall be authorized, upon written instructions received from the Committee or investment manager appointed by the Committee, to invest and reinvest the assets of the Trust in accordance with the applicable Trust Agreement.

3.8 **Vesting**.

(a) A Participant shall at all times be 100% vested in his or her Deferral Account.

(b) The Committee, in its sole discretion, will determine over what period of time and in what percentage increments a Participant shall vest in his or her Company Contribution Account. The Committee may credit some Participants with larger or smaller vesting percentages than other Participants, and the vesting percentage credited to any Participant for a Plan Year may be zero, even though one or more other Participants have a greater vesting percentage credited to them for that Plan Year. Absent the exercise of such discretion, a Participant shall be fully vested upon attainment of age 62.

(c) A Participant shall be vested in his or her Annual Company Matching Amount in accordance with the following schedule:

Years of Service on Date of Termination of Employment	Vested Percentage of Annual Company Matching Account
Less than 1 year	0%
1 year	25%
2 years	50%
3 years	75%
4 or more years	100%

Regardless of the number of Years of Service, a Participant shall be fully vested upon attainment of age 62.

(d) Notwithstanding anything in this Section to the contrary, except as provided in subsection (e) below, in the event of a Change in Control, a Participant's Company Contribution Account and Company Matching Account shall immediately become 100% vested (without regard to whether it is already vested in accordance with the above vesting schedules).

(e) Notwithstanding subsection (d) above, the vesting schedule for a Participant's Company Contribution Account and/or Company Matching Account shall not be accelerated to the extent that the Committee determines that such acceleration would cause the deduction limitations of Section 280G of the Code to become effective. In the event that all of a Participant's Company Contribution Account is not vested pursuant to such a determination, the Participant may request independent verification of the Committee's calculations with respect to the application of Section 280G. In such case, the Committee must provide to the Participant within thirty (30) business days of such a request an opinion from a nationally-recognized accounting firm selected by the Committee (the "Accounting Firm"). The opinion shall state the Accounting Firm's opinion that any limitation in the vested percentage hereunder is necessary to avoid the limits of Section 280G and contain supporting calculations. The cost of such opinion shall be paid for by the Company.

3.9 **Crediting/Debiting of Account Balances**. In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account Balance in accordance with the following rules:

(a) **Election of Measurement Funds**. A Participant, in connection with his or her initial deferral election in accordance with Section 3.3(a) above, shall elect, on the Election Form, one or more Measurement Fund(s) to be used to determine the additional amounts to be credited to his or her Account Balance for the first business day in which the Participant commences participation in the Plan and continuing thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the next sentence. Commencing with the first business day that follows the Participant's commencement of participation in the Plan and continuing thereafter for each subsequent day in which the Participant participates in the Plan, the Participant may (but is not required to) elect, by submitting an Election Form to the Committee that is accepted by the Committee, to add or delete one or more Measurement Fund(s) to be used to determine the additional amounts to be credited to his or her Account Balance, or to change the portion of his or her Account Balance allocated to each previously or newly elected Measurement Fund. If an election is made in accordance with the previous sentence, it shall apply to the next business day and continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the previous sentence.

(b) **Proportionate Allocation**. In making any election described in Section 3.10(a) above, the Participant shall specify on the Election Form, in increments of five percentage points (5%), the percentage of his or her Account Balance to have gains and losses measured by a Measurement Fund.

(c) **Measurement Funds**. From time to time, the Committee in its sole discretion shall select and announce to Participants its selection of mutual funds, insurance company separate accounts, indexed rates or other methods (each, a “Measurement Fund”), for the purpose of providing the basis on which gains and losses shall be attributed to Account Balances under the Plan. The Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund at any time. Each such action will take effect as of the first day of the calendar quarter that follows by thirty (30) days the day on which the Committee gives Participants advance written notice of such change.

(d) **Crediting or Debiting Method**. The performance of each elected Measurement Fund (either positive or negative) will be determined by the Committee, in its reasonable discretion, based on available reports of the performance of the Measurement Funds. A Participant’s Account Balance shall be credited or debited on a daily basis based on the performance of each Measurement Fund selected by the Participant, as determined by the Committee in its sole discretion, as though (i) a Participant’s Account Balance were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such day, as of the close of business on such day, at the closing price on such date; (ii) the portion of the Annual Deferral Amount that was actually deferred during any day were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such day, no later than the close of business on the first business day after the day on which such amounts are actually deferred from the Participant’s Annual Base Salary through reductions in his or her payroll, at the closing price on such date; and (iii) any distribution made to a Participant that decreases such Participant’s Account Balance ceased being invested in the Measurement Fund(s), in the percentages applicable to such day, no earlier than one business day prior to the distribution, at the closing price on such date.

(e) **No Actual Investment**. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation to his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance shall not be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Company or the Trustee (as that term is defined in the Trust), in its own discretion, decides to invest funds in any or all of the Measurement Funds, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account Balance shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company or the Trust; the Participant shall at all times remain an unsecured creditor of the Company.

3.10 **FICA and Other Taxes**.

(a) **Annual Deferral Amounts**. For each Plan Year in which an Annual Deferral Amount is being withheld from an Employee Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Annual Base Salary, Annual Bonus and/or Commissions that is not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Deferral Amount. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section.

(b) **Company Matching Amounts**. When a participant becomes vested in a portion of his or her Company Matching Account, the Participant's Employer(s) shall withhold from the Participant's Annual Base Salary, Annual Bonus and/or Commissions that is not deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes. If necessary, the Committee may reduce the vested portion of the Participant's Company Matching Account in order to comply with this Section.

(c) **Other Amounts**. When an Employee Participant becomes vested in a portion of his or her Annual Company Contribution Amounts, the Participant's Employer(s) shall withhold from the Participant's Annual Base Salary, Annual Bonus and/or Commissions that is not deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes. If necessary, the Committee may reduce the vested portion of the Participant's aforementioned amounts in order to comply with this Section.

3.11 **Distributions**. The Participant's Employer(s), or the Trustee of the Trust, shall withhold from any payments made to a Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld by the Employer(s), or the Trustee of the Trust, in connection with such payments, in amounts and in a manner to be determined in the sole discretion of the Employer(s) and the Trustee of the Trust. The Employer(s) and the Trustee of the Trust shall also be authorized to withhold any amount validly owed to the Employer for which the Employer has previously requested but not received payment.

ARTICLE 4
Short-Term Payout/Unforeseeable Financial Emergencies/Change in Control Withdrawal Elections

4.1 **Short-Term Payout**. In connection with each election to defer an Annual Deferral Amount, a Participant may irrevocably elect to receive a future "Short-Term Payout" from the Plan with respect to such Annual Deferral Amount. Subject to the Deduction Limitation, the Short-Term Payout shall be a lump sum payment in an amount that is equal to the Annual Deferral Amount plus amounts credited or debited in the manner provided in Section 3.9 above on that amount, determined at the time that the Short-Term Payout becomes payable (rather than the date of a Termination of Employment). Subject to the Deduction Limitation and the other terms and conditions of this Plan, each Short-Term Payout elected shall be paid out during a sixty (60) day period commencing immediately after the last day of any Plan Year designated by the Participant that is at least three Plan Years after the end of the Plan Year in which the Annual Deferral Amount is actually deferred. By way of example, if a three year Short-Term Payout is elected for Annual Deferral Amounts that are deferred in the Plan Year commencing January 1, 2006, the three year Short-Term Payout would become payable during a sixty (60) day period commencing January 1, 2010.

4.2 **Other Benefits Take Precedence Over Short-Term**. Should an event occur that triggers a benefit under Article 5, 6, 7 or 8, any Annual Deferral Amount, plus amounts credited or debited thereon, that is subject to a Short-Term Payout election under Section 4.1 shall not be paid in accordance with Section 4.1 but shall be paid in accordance with the other applicable Article.

4.3 **Withdrawal Payouts for Unforeseeable Financial Emergencies**. If the Participant experiences an Unforeseeable Financial Emergency, the Participant may petition the Committee to receive a partial or full payout from the Plan. The payout shall not exceed the lesser of the Participant's Account Balance, calculated as if such Participant were receiving a Termination Benefit, or the amount reasonably needed to satisfy the Unforeseeable Financial Emergency, taking into account any additional compensation that would be available if the Participant terminated his deferral election. Notwithstanding the irrevocability of the elections described in subsections 3.3(a) and (b), a Participant's deferral elections shall be cancelled for the balance of the current Plan Year if the Participant receives a hardship distribution under the Employer's 401(k) Plan or a distribution due to an unforeseeable emergency under this Plan. If, subject to the sole discretion of the Committee, the petition for a payout is approved, any payout shall be made within sixty (60) days of the date of approval. The payment of any amount under this Section 4.3 shall not be subject to the Deduction Limitation.

4.4 **Distributions Upon a Change in Control**. Notwithstanding any other election made by Participants regarding when Plan benefits shall be distributed, Participants may elect annually whether they wish to receive a lump sum payout following a Change in Control with respect to amounts subject to that year's election. If such an election is made, distributions following a Change in Control shall be paid as soon as practicable and in a lump sum cash distribution. The Change in Control must relate to the Company or the Participant's employer if the Company owns a majority of the total fair market value and total voting power of the stock of the Participant's employer.

ARTICLE 5
Survivor Benefit

5.1 **Survivor Benefit**. Subject to the Deduction Limitation, if the Participant dies before he or she experiences a Termination of Employment, the Participant's Beneficiary shall be entitled to receive the Termination Benefit described in Section 6.2 as if Participant Terminated his or her employment with the Company and the Election Form on file with the Company shall control the manner in which Termination Benefit is paid. Should the Participant die after the Termination of Employment, but before the Termination Benefit is paid in full, the unpaid balance shall continue to be paid to the Beneficiary according to the Annual Installment Method previously selected by the Participant.

ARTICLE 6
Termination Benefit

6.1 **Termination Benefit**. Subject to the Deduction Limitation, a Participant shall receive a Termination Benefit, which shall be equal to the Participant's Account Balance if a Participant experiences a Termination of Employment prior to his or her death or Disability.

6.2 **Payment of Termination Benefit**. A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form to receive the Termination Benefit in a lump sum or pursuant to the Annual Installment Method. The Termination Benefit will be paid not later than 60 days after the end of the Plan Year in which the Participant terminates his or her employment; provided, however, that distribution may not be made within 6 months of the

Termination of Employment of a key employee (as defined in Code Section 416(i) without regard to paragraph 5 thereof except that the compensation taken into account to determine key employee status shall be the compensation paid to the Participant during the 12 month period ending on the Identification Date). The Participant may change his or her election, to the extent such change does not accelerate the time of any scheduled payment under the Plan or fail to comply with the provisions of Code Section 409A(a)(4)(C), to an allowable alternative payout period by submitting a new Election Form to the Committee, provided that any such Election Form is accepted by the Committee, in its sole discretion. The Election Form most recently accepted by the Committee shall govern the payout of the Termination Benefit. If a Participant does not make any election with respect to the payment of the Termination Benefit, then such benefit shall be payable in a lump sum. Any payment made shall be subject to the Deduction Limitation. Notwithstanding the foregoing or anything in this Plan to the contrary, to the extent a Participant's Account Balance is less than $25,000 at the time of Termination of Employment, the Committee shall cause the Termination Benefit to be paid in a lump sum.

ARTICLE 7
Disability Waiver and Benefit

7.1 **Disability Waiver**.

(a) **Waiver of Deferral**. A Participant who is determined by the Committee to be suffering from a Disability shall be (i) excused from fulfilling that portion of the Annual Deferral Amount commitment that would otherwise have been withheld from a Participant's Annual Base Salary, Annual Bonus, Commissions and/or Directors Fees for the Plan Year during which the Participant first suffers a Disability. During the period of Disability, the Participant shall not be allowed to make any additional deferral elections, but will continue to be considered a Participant for all other purposes of this Plan.

(b) **Return to Work**. If a Participant returns to employment, or service as a Director, with an Employer, after a Disability ceases, the Participant may elect to defer an Annual Deferral Amount for the Plan Year following his or her return to employment or service and for every Plan Year thereafter while a Participant in the Plan; provided such deferral elections are otherwise allowed and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.3 above.

7.2 **Continued Eligibility; Disability Benefit**. A Participant determined by the Committee to be Disabled shall be deemed to have experienced a Termination of Employment and shall receive a lump sum Disability Benefit equal to his or her Account Balance at the time of the Committee's determination. Any payment made shall be subject to the Deduction Limitation.

ARTICLE 8
Beneficiary Designation

8.1 **Beneficiary**. Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates. A Participant's designation of a spouse as a Beneficiary shall automatically be revoked following the issuance of a final judgment of divorce between the parties.

8.2 **Beneficiary Designation; Change; Spousal Consent**. A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing, and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. If the Participant names someone other than his or her spouse as a Beneficiary, a spousal consent, in the form designated by the Committee, must be signed by that Participant's spouse (with such signature witnessed either by a notary public or a member of the Committee) and returned to the Committee. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death.

8.3 **Acknowledgment**. No designation or change in designation of a Beneficiary shall be effective until received and acknowledged in writing by the Committee or its designated agent.

8.4 **No Beneficiary Designation**. If a Participant fails to designate a Beneficiary as provided in Sections 8.1, 8.2, and 8.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.

8.5 **Doubt as to Beneficiary**. If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its discretion, to cause the Participant's Employer to withhold such payments until this matter is resolved to the Committee's satisfaction.

8.6 **Discharge of Obligations**. The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further obligations under this Plan with respect to the Participant, and that Participant's Plan Agreement shall terminate upon such full payment of benefits.

ARTICLE 9
Reserved

ARTICLE 10
Cessation of Contributions Amendment or Modification

10.1 **Cessation of Contributions**. Although each Employer anticipates that it will continue contributing to the Plan for an indefinite period of time, there is no guarantee that any Employer will continue making contributions to the Plan indefinitely. Accordingly, each Employer reserves the right to discontinue funding contributions to the Plan (including the Participant's Annual Deferral Amount, the Annual Company Matching Amount, and the Annual Company Contribution Amount), by action of its board of directors. Notwithstanding the cessation of future contributions, payment of a Participant's Account Balance shall be in accordance with the person's Election Form.

10.2 **Amendment**. The Employer's Board delegates to the Chief Executive Officer, or his designee(s), the authority to modify, amend, or restate the Plan as appropriate in their discretion, as well as the authority to act on behalf of the Employer in discharging the duties of the Employer in administering the Plan; provided, however, that no amendment or modification shall be effective to decrease or restrict the value of a Participant's Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification.

10.3 **Plan Agreement**. Despite the provisions of Sections 10.1 and 10.2 above, if a Participant's Plan Agreement contains benefits or limitations that are not in this Plan document, the Employer may only amend or terminate such provisions with the consent of the Participant.

10.4 **Effect of Payment**. The full payment of the applicable benefit under Articles 4, 5, 6, 7 or 8 of the Plan shall completely discharge all obligations to a Participant and his or her designated Beneficiaries under this Plan and the Participant's Plan Agreement shall terminate.

ARTICLE 11
Administration

11.1 **Committee Duties**. Except as otherwise provided in this Article 11, this plan shall be administered by a Committee, which shall consist of those persons appointed by the Chief Executive Officer of the Company. Members of the Committee may be Participants under this Plan. The Committee shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan. Any individual serving on the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or the Company.

11.2 **Administration Upon Change In Control**. For purposes of this Plan, the Company shall be the "Administrator" at all times prior to the occurrence of a Change in Control. Upon and after the occurrence of a Change in Control, the "Administrator" shall be an independent third party selected by the Trustee and approved by the individual who, immediately prior to such event, was the Company's Chief Executive Officer or, if not available or willing to assume such responsibility, the Company's highest ranking officer (the "Ex-CEO"). The Administrator shall have the discretionary power to determine all questions arising in connection with the administration of the Plan and the interpretation of the Plan and Trust including, but not limited to benefit entitlement determinations; provided, however, upon and after the occurrence of a Change in Control, the Administrator shall have no power to direct the investment of Plan or Trust assets or select any investment manager or custodial firm for the Plan or Trust. Upon and after the occurrence of a Change in Control, the Company must: (1) pay all reasonable administrative expenses and fees of the Administrator; (2) indemnify the Administrator against any costs, expenses and liabilities including, without limitation, attorney's fees and expenses arising in connection with the performance of the Administrator hereunder, except with respect to matters resulting from the gross negligence or willful misconduct of the Administrator or its employees or agents; and (3) supply full and timely information to the Administrator or all matters relating to the Plan, the Trust, the Participants and their Beneficiaries, the Account Balances of the Participants, the date of circumstances of the Disability, death or Termination of Employment of the Participants, and such other pertinent information as the Administrator may reasonably require. Upon and after a Change in Control, the Administrator may be terminated (and a replacement appointed) by the Trustee only with the approval of the Ex-CEO. Upon and after a Change in Control, the Administrator may not be terminated by the Company.

11.3 **Agents**. In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to any Employer.

11.4 **Binding Effect of Decisions**. The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

11.5 **Indemnity of Committee**. All Employers shall indemnify and hold harmless the members of the Committee, and any Employee to whom the duties of the Committee may be delegated, and the Administrator against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee, any of its members, any such Employee or the Administrator.

11.6 **Employer Information**. To enable the Committee and/or Administrator to perform its functions, the Company and each Employer shall supply full and timely information to the Committee and/or Administrator, as the case may be, on all matters relating to the compensation of its Participants, the date and circumstances of the Disability, death or Termination of Employment of its Participants, and such other pertinent information as the Committee or Administrator may reasonably require.

ARTICLE 12
Other Benefits and Agreements

12.1 **Coordination with Other Benefits**. The benefits provided for a Participant and Participant’s Beneficiary under the Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the Participant’s Employer. The Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

ARTICLE 13
Claims Procedures

13.1 **Presentation of Claim**. Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a “Claimant”) may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such

Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within sixty (60) days after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.

13.2 **Notification of Decision**. The Committee shall consider a Claimant's claim within a reasonable time, and shall notify the Claimant in writing:

(a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or

(b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:

(i) the specific reason(s) for the denial of the claim, or any part of it;

(ii) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;

(iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary; and

(iv) an explanation of the claim review procedure set forth in Section 13.3 below.

13.3 **Review of a Denied Claim**. Within sixty (60) days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the claim. Thereafter, but not later than thirty (30) days after the review procedure began, the Claimant (or the Claimant's duly authorized representative):

(a) may review pertinent documents;

(b) may submit written comments or other documents; and/or

(c) may request a hearing, which the Committee, in its sole discretion, may grant.

13.4 **Decision on Review**. The Committee shall render its decision on review promptly, and not later than sixty (60) days after the filing of a written request for review of the denial, unless a hearing is held or other special circumstances require additional time, in which case the Committee's decision must be rendered within 120 days after such date. Such decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

(a) specific reasons for the decision;

(b) specific reference(s) to the pertinent Plan provisions upon which the decision was based; and

(c) such other matters as the Committee deems relevant.

13.5 **Mediation**. Should the parties be unable to resolve the dispute pursuant to these procedures, the claim shall be referred to non-binding mediation, conducted by the San Diego panel of Judicial Arbitration Mediation Services ("JAMS"), in accordance with JAMS' standard mediation rules. A mutually agreeable mediator will be selected. The parties shall share all costs of the mediation equally, including attorney fees. Not sooner than 20 days following the mediator's final determination, either party may request binding arbitration.

13.6 **Binding Arbitration**. Following the expiration of the 20 day period referenced in Section 13.5, either party may initiate binding arbitration by making a written demand for it on the other party. Such binding arbitration shall be conducted under the applicable rules of the American Arbitration Association using a mutually selected arbitrator in San Diego County. The cost of the arbitration shall be borne by the non-prevailing party or as otherwise determined by the arbitrator.

ARTICLE 14
Trust

14.1 **Establishment of the Trust**. The Company shall establish the Trust, and each Employer shall at least annually transfer over to the Trust such assets as the Employer determines, in its sole discretion, are necessary to provide, on a present value basis, for its respective future liabilities created with respect to the Annual Company Contribution Amounts, Company Matching Contribution Amounts, and Annual Deferral Amounts for such Employer's Participants for all periods prior to the transfer, as well as any debits and credits to the Participants' Account Balances for all periods prior to the transfer, taking into consideration the value of the assets in the trust at the time of the transfer.

14.2 **Interrelationship of the Plan and the Trust**. The provisions of the Plan and the Plan Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan.

The provisions of the Trust shall govern the rights of the Employers, Participants and the creditors of the Employers to the assets transferred to the Trust. Each Employer shall at all times remain liable to carry out its obligations under the Plan.

14.3 **Distributions From the Trust**. Each Employer's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Employer's obligations under this Plan.

ARTICLE 15
Miscellaneous

15.1 **Status of Plan**. The Plan is intended to be a plan that is not qualified within the meaning of Code Section 401(a) and that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employee" within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.

15.2 **Unsecured General Creditor**. Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. For purposes of the payment of benefits under this Plan, any and all of an Employer's assets shall be, and remain, the general, unpledged unrestricted assets of the Employer. An Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

15.3 **Employer's Liability**. An Employer's liability for the payment of benefits shall be defined only by the Plan and the Plan Agreement, as entered into between the Employer and a Participant. An Employer shall have no obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Plan Agreement.

15.4 **Nonassignability**. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

15.5 **Not a Contract of Employment**. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between any Employer and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of any Employer, either as an Employee or a Director, or to interfere with the right of any Employer to discipline or discharge the Participant at any time.

15.6 **Furnishing Information**. A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.

15.7 **Terms**. Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

15.8 **Captions**. The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

15.9 **Governing Law**. Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of Delaware without regard to its conflicts of laws principles.

15.10 **Notice**. Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Vice President & Controller
Callaway Golf Company
2180 Rutherford Road
Carlsbad, CA 92008

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

15.11 **Successors**. The provisions of this Plan shall bind and inure to the benefit of the Participant's Employer and its successors and assigns and the Participant and the Participant's designated Beneficiaries.

15.12 **Spouse's Interest**. The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.

15.13 **Validity**. In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

15.14 **Incompetent**. If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

15.15 **Court Order**. The Committee is authorized to make any payments directed by court order in any action in which the Plan or the Committee has been named as a party. In addition, if a court determines that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan in connection with a property settlement or otherwise, the Committee, in its sole discretion, shall have the right, notwithstanding any election made by a Participant, to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to that spouse or former spouse.

15.16 **Distribution in the Event of Taxation**.

(a) **In General**. If, for any reason, all or any portion of a Participant's benefits under this Plan becomes taxable to the Participant prior to receipt, a Participant may petition either the Employer or the trustee of the Trust for a distribution in an amount sufficient to pay the employment taxes imposed under Code sections 3101, 3121 and the income taxes imposed under section 3401 attributable to such amounts that have become taxable. Upon the grant of such a petition, a Participant's Employer or the trustee shall distribute to the Participant immediately available funds in an amount not to exceed the afore-described tax liability (which amount shall not exceed a Participant's unpaid Account Balance under the Plan). The tax liability distribution shall be made within thirty (30) days of the date when the Participant's petition is granted.

(b) If, for any reason, all or any portion of the Participant's benefits under this Plan fail to meet the requirements of Code Section 409A or applicable regulations thereunder, the Company shall pay the Participant an amount equal to the amount included in the Participant's income as a result of the failure. The distribution shall be made within thirty (30) days of the date the failure is discovered.

(c) Any benefits distributed to a Participant in accordance with subsection (a) or (b) shall reduce the Participant's benefits under this Plan.

15.17 **Insurance**. The Employers, on their own behalf or on behalf of the trustee of the Trust, and, in their sole discretion, may apply for and procure insurance on the life of the Participant, in such amounts and in such forms as the Trust may choose. The Employers or the trustee of the Trust, as the case may be, shall be the sole owner and beneficiary of any such insurance. The Participant shall have no interest whatsoever in any such policy or policies, and at the request of the Employers shall submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to whom the Employers have applied for insurance.

15.18 **Legal Fees To Enforce Rights After Change in Control**. The Company and each Employer is aware that upon the occurrence of a Change in Control, the Board or the board of directors of a Participant's Employer (which might then be composed of new members) or a shareholder of the Company or the Participant's Employer, or of any successor corporation might then cause or attempt to cause the Company, the Participant's Employer or such successor to refuse to comply with its obligations under the Plan and might cause or attempt to cause the Company or the Participant's Employer to institute, or may institute, litigation seeking to deny Participants the benefits intended under the Plan. In these circumstances, the purpose of the Plan could be frustrated. Accordingly, if, following a Change in Control, it should appear to any Participant that the Company, the Participant's Employer or any successor corporation has failed to comply with any of its obligations under the Plan or any agreement hereunder or, if the Company, such Employer or any other person takes any action to declare the Plan void or unenforceable or institutes any litigation or other legal action designed to deny, diminish or to recover from any Participant the benefits intended to be provided, then the Company and the Participant's Employer irrevocably authorize such Participant to retain counsel of his or her choice at the expense of the Company and the Participant's Employer (who shall be jointly and severally liable) to represent such Participant in connection with the initiation or defense of any litigation or other legal action, whether by or against the Company, the Participant's Employer or any director, officer, shareholder or other person affiliated with the Company, the Participant's Employer or any successor thereto in any jurisdiction. Notwithstanding anything in this Section or the Plan to the contrary, the Company and/or the Participant's employer shall have no obligation under this Section to the extent there is a judicial determination or final mediation decision that the litigation or other legal action brought by the Participant is frivolous.

15.19 **Disclaimer**. It is the parties intention that this arrangement comply with the provisions of Code Section 409A. Notwithstanding the foregoing as well as the provisions of Section 15.16, the Company shall have no liability to any Participant should any provision of the Plan fail to satisfy Code Section 409A.

IN WITNESS WHEREOF, the Company has signed this Plan document as of ____________, 2005.

"Company"

Callaway Golf Company, a Delaware corporation

By: ______________________________

Title: ______________________________

Exhibit 10.32

Trust Agreement for the
Callaway Golf Company Executive Deferred Compensation Plans

(As amended and restated, effective January 1, 2005)

TRUST AGREEMENT

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TRUST AGREEMENT
FOR THE
CALLAWAY GOLF COMPANY
EXECUTIVE DEFERRED COMPENSATION PLANS
(as amended and restated effective January 1, 2005)

THIS AMENDED TRUST AGREEMENT ("Trust Agreement") is made and entered into as of January 1, 2005, between Callaway Golf Company, Inc., a Delaware corporation (the "Company"), and U.S. Trust Company, N. A., a national banking association (the "Trustee"), to evidence the trust (the "Trust") to be established, pursuant to the 2002 Callaway Golf Company Executive Deferred Compensation Plan ("2002 Plan") and the 2005 Callaway Golf Company Executive Deferred Compensation Plan ("2005 Plan") (each a "Plan" and together, the "Plans") that require the establishment of a trust, for the benefit of a select group of management, highly compensated employees and/or Directors who contribute materially to the continued growth, development and business success of the Company and those subsidiaries of the Company, if any, that participate in the Plans (collectively, "Subsidiaries," or singularly, "Subsidiary").

ARTICLE 1
Name, Intentions, Irrevocability,
Deposit and Definitions

1.1 **Name.** The name of the Trust created by this Agreement (the "Trust") shall be the:

TRUST FOR THE 2002 and 2005 CALLAWAY GOLF COMPANY
EXECUTIVE DEFERRED COMPENSATION PLANS

1.2 **Intentions.** The Company wishes to establish the Trust and to contribute to the Trust assets that shall be held therein, subject to the claims of the Company's and the Subsidiaries' creditors in the event of their Insolvency (as defined below) until paid to Participants and their Beneficiaries in such manner and at such times as specified in the Plans or until the Trust is terminated as provided herein. It is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Plans as unfunded plans maintained for the purpose of providing supplemental compensation for a select group of management, highly compensated employees and/or Directors for purposes of Title I of ERISA (as defined below). In addition, it is the intention of the Company and the Subsidiaries to make contributions to the Trust to provide themselves with a source of funds to assist them in the meeting of their liabilities under the Plans. Finally, it is the intention of the Company to establish a single trust under this Trust Agreement, whether pursuant to the creation of separate sub-trusts or otherwise, so that the records and accounts attributable to the 2002 Plan and the 2005 Plan can be maintained separately. With respect to the 2005 Plan, the Trust will be maintained within the United States and all assets of the Trust attributable to the 2005 Plan will be located within the United States at all times.

1.3 **Irrevocability; Creditor Claims.** The Trust hereby established shall be irrevocable. Except as otherwise provided in Sections 2.5 and 9.2, the principal of the Trust, and any earnings thereon, shall be held separate and apart from other funds of the Company and the Subsidiaries and shall be used exclusively for the uses and purposes of the Participants and their Beneficiaries and the general creditors of the Company and the Subsidiaries as herein set forth and as provided in the Plans. The Participants and their Beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plans and this Trust Agreement shall be mere unsecured contractual rights of the Participants and their Beneficiaries against the Company and the Subsidiaries. Any assets held by the Trust will be subject to the claims of the Company's and the Subsidiaries' general creditors under federal and state law in the event of Insolvency as provided in Section 3.8.

1.4 **Initial Deposit.** The Company hereby deposits with the Trustee in trust $100, which shall become the principal of the Trust to be held, administered and disposed of by the Trustee as provided in this Trust Agreement.

1.5 **Additional Definitions.** In addition to the definitions set forth above, for purposes hereof, unless otherwise clearly apparent from the context, the following terms have the following indicated meanings:

(a) "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with a Plan, that are entitled to receive benefits under a Plan upon the death of a Participant.

(b) "Board" shall mean the board of directors of the Company.

(c) "Change in Control" shall having the meaning ascribed in each Plan.

(d) "Committee" shall mean the administrative committee appointed by the Board or its designees to administer this Trust.

(e) "Director" shall mean any member of the board of directors of the Company or any Subsidiary.

(f) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

(g) "Insolvent" shall have the meaning set forth in Section 3.8(a) below.

(h) "Insolvent Entity" shall have the meaning set forth in Section 3.8(a) below.

(i) "IRS" shall mean the Internal Revenue Service.

(j) "Participant" shall mean a person who is a participant in a Plan in accordance with its terms and conditions.

(k) "Payment Schedule" shall have the meaning set forth in Section 3.7(b) below.

(l) "Plans" shall mean the 2002 Callaway Golf Company Executive Deferred Compensation Plan and the 2005 Callaway Golf Company Executive Deferred Compensation Plan.

(m) "Plan Year" shall mean the Plan Year chosen for this Trust Agreement by the Board.

(n) "Trust Fund" shall mean the assets held by the Trustee pursuant to the terms of this Trust Agreement and for the purposes of the Plans.

1.6 **Grantor Trust.** The Trust is intended to be a "grantor trust," of which the Company and the Subsidiaries are the grantors, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and the Trust shall be construed accordingly.

ARTICLE 2
General Administration

2.1 **Committee Directions and Administration Before Change in Control.** Until a Change in Control has occurred, this Section 2.1 shall be effective and the Committee shall direct the Trustee as to the administration of the Trust in accordance with the following provisions:

(a) The Committee members shall be identified to the Trustee by a written notice from the Company's Chief Executive Officer or Chief Financial Officer appointing the Committee. In the absence thereof, the Board shall be the Committee. Persons authorized to give directions to the Trustee on behalf of the Committee shall be identified to the Trustee by written notice from the Committee, and such notice shall contain specimens of the authorized signatures. The Trustee shall be entitled to rely on such written notice as evidence of the identity and authority of the persons appointed until a written cancellation of the appointment, or the written appointment of a successor, is received by the Trustee.

(b) Directions by the Committee, or its delegate, to the Trustee shall be in writing and signed by the Committee or persons authorized by the Committee, or may be made by such other method as is acceptable to the Trustee.

(c) The Trustee may conclusively rely upon directions from the Committee in taking any action with respect to this Trust Agreement, including the making of payments from the Trust Fund and the investment of the Trust Fund pursuant to this Trust Agreement. The Trustee shall have no liability for actions taken, or for failure to act, on the direction of the Committee. The Trustee shall have no liability for failure to act in the absence of directions from the Committee where the Committee's directions are required by this Trust Agreement.

(d) The Trustee may request instructions from the Committee and shall have no duty to act or liability for failure to act if such instructions are not forthcoming from the Committee. If requested instructions are not received within a reasonable time, the Trustee may, but is under no duty to, act on its own discretion to carry out the provisions of this Trust Agreement in accordance with this Trust Agreement and the Plans.

2.2 **Administration Upon Change in Control**. In the event of a Change in Control, the authority of the Committee to administer the Trust and direct the Trustee, as set forth in Section 2.1 above, shall cease, and the Trustee shall have complete authority to administer the Trust.

2.3 **Contributions.** Except as provided in any Plan, the Company and the Subsidiaries, in their sole discretion, may at any time, or from time to time, make additional deposits of cash or other property in trust with the Trustee to augment the principal to be held, administered and disposed of by the Trustee as provided in this Trust Agreement. Neither the Trustee nor any Participant or Beneficiary shall have any right to compel such additional deposits. The Trustee shall have no duty to collect or enforce payment to it of any contributions or to require that any contributions be made, and shall have no duty to compute any amount to be paid to it nor to determine whether amounts paid comply with the terms of a Plan; provided, however, that following a Change in Control, the Trustee shall have the right, in its sole and absolute discretion, to compel a contribution to the Trust from the Company and the Subsidiaries to make-up for any shortfall between (i) the anticipated benefit obligations and administrative expenses that are to be paid under the Plans and the Trust and (ii) the assets of the Trust Fund.

2.4 **Trust Fund.** The contributions received by the Trustee from the Company and the Subsidiaries shall be held and administered pursuant to the terms of this Trust Agreement as a single fund without distinction between income and principal and without liability for the payment of interest thereon except as expressly provided in this Trust Agreement. During the term of this Trust, all income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested. Notwithstanding the foregoing, the Trust Fund shall be maintained and administered as if separate trusts existed for each Plan.

2.5 **Distribution of Excess Trust Fund to Employers**. Prior to a Change in Control, in the event that the Committee determines that the Trust Fund exceeds 125 percent of the anticipated benefit obligations and administrative expenses that are to be paid under the Plans, the Trustee, at the direction of the Committee shall distribute to the Company and the Subsidiaries such excess portion of the Trust Fund.

ARTICLE 3
Powers and Duties of Trustee

3.1 **Investment Directions.** Except as provided in this Section and Section 3.2 below, the Committee shall provide the Trustee with all investment instructions. The Trustee shall neither affect nor change investments of the Trust Fund, except as directed in writing by the Committee or as provided in Section 3.2 following a Change in Control, and shall have no right, duty or responsibility to recommend investments or investment changes; provided, that the Trustee may, pending the Committee's investment direction or pending disbursement of cash from the Trust, deposit cash on hand from time to time in any bank savings account, certificate of deposit, or other instrument creating a deposit liability for a bank, including the Trustee's own banking department, or those of its affiliates if the Trustee is a bank, without such prior direction.

3.2 **Investment Upon Change in Control.** In the event of a Change in Control, the authority of the Committee to direct investments of the Trust Fund shall cease and the Trustee shall have complete authority to direct investments of the Trust Fund. The person who was the Chief Executive Officer of the Company immediately prior to the Change in Control or, if not available or willing to assume such responsibility, the Company's next highest ranking officer prior to the Change in Control (the "Ex-CEO") shall notify the Trustee in writing when a Change in Control has occurred. The Trustee has no duty to inquire whether a Change in Control has occurred and may rely on the Ex-CEO's notification of a Change in Control; provided, however, that if any officer, former officer, director, or former director of the Company or any Subsidiary, or any Participant notifies the Trustee that there has been or there may be a Change in Control, the Trustee shall have the duty to satisfy itself as to whether a Change in Control has in fact occurred. The Company and the Subsidiaries shall indemnify and hold harmless the Trustee for any damages or costs (including attorneys' fees) that may be incurred because of reliance on the former chief executive officer's notice or lack thereof.

3.3 **Management of Investments.** Subject to Section 3.1 above, the Trustee shall have, without exclusion, all powers conferred on the Trustee by applicable law, unless expressly provided otherwise herein, and all rights associated with assets of the Trust shall be exercised by the Trustee or the person designated by the Trustee, and shall in no event be exercisable by or rest with Participants or their Beneficiaries. The Trustee shall have full power and authority to invest and reinvest the Trust Fund in any investment permitted by law, provided that Trust assets deferred pursuant to the 2005 Plan must at all times be located within the United States, exercising the judgment and care that persons of prudence, discretion and intelligence would exercise under the circumstances then prevailing, considering the probable income and safety of their capital, including, without limiting the generality of the foregoing, the power:

(a) To invest and reinvest the Trust Fund, together with the income therefrom, in common stock, preferred stock, convertible preferred stock, mutual funds, bonds, debentures, convertible debentures and bonds, mortgages, notes, time certificates of deposit, commercial paper and other evidences of indebtedness (including those issued by the Trustee or any of its affiliates), other securities, policies of life insurance, annuity contracts, options to buy or sell securities or other assets, and other property of any kind (personal, real, or mixed, and tangible or intangible); provided, however, that in no event may the Trustee invest in securities (including stock or rights to acquire stock) or obligations issued by the Company or the Subsidiaries, other than a de minimis amount held in common investment vehicles in which the Trustee invests;

(b) To deposit or invest all or any part of the assets of the Trust Fund in savings accounts or certificates of deposit or other deposits which bear a reasonable interest rate in a bank, including the commercial department of the Trustee, if such bank is supervised by the United States or any State;

(c) To hold, manage, improve, repair and control all property, real or personal, forming part of the Trust Fund and to sell, convey, transfer, exchange, partition, lease for any term, even extending beyond the duration of this Trust, and otherwise dispose of the same from time to time in such manner, for such consideration, and upon such terms and conditions as the Trustee shall determine;

(d) To have, respecting securities, all the rights, powers and privileges of an owner, including the power to give proxies, pay assessments and other sums deemed by the Trustee to be necessary for the protection of the Trust Fund, to vote any corporate stock either in person or by proxy, with or without power of substitution, for any purpose; to participate in voting trusts, pooling agreements, foreclosures, reorganizations, consolidations, mergers and liquidations, and in connection therewith to deposit securities with and transfer title to any protective or other committee under such terms as the Trustee may deem advisable; to exercise or sell stock subscriptions or conversion rights; and, regardless of any limitation elsewhere in this instrument relative to investment by the Trustee, to accept and retain as an investment any securities or other property received through the exercise of any of the foregoing powers;

(e) To hold in cash, without liability for interest, such portion of the Trust Fund which, in its discretion, shall be reasonable under the circumstances, pending investments, or payment of expenses, or the distribution of benefits;

(f) To employ such agents including custodians and counsel as may be reasonably necessary and to pay them reasonable compensation; to settle, compromise or abandon all claims and demands in favor of or against the Trust assets;

(g) To cause title to property of the Trust to be issued, held or registered in the individual name of the Trustee, or in the name of its nominee(s) or agents, or in such form that title will pass by delivery;

(h) To exercise all of the further rights, powers, options and privileges granted, provided for, or vested in trustees generally under the laws of the State whose laws are applicable to this Trust Agreement, as provided in Section 10.6 below, so that the powers conferred upon the Trustee herein shall not be in limitation of any authority conferred by law, but shall be in addition thereto;

(i) To borrow money from any source (including the Trustee) and to execute promissory notes, mortgages or other obligations and to pledge or mortgage any Trust assets as security;

(j) To institute, compromise and defend actions and proceedings; to pay or contest any claim; to settle a claim by or against the Trustee by compromise, arbitration, or otherwise; to release, in whole or in part, any claim belonging to the Trust to the extent that the claim is uncollectible;

(k) To use securities depositories or custodians and to allow such securities as may be held by a depository or custodian to be registered in the name of such depository or its nominee or in the name of such custodian or its nominee;

(l) To invest the Trust Fund from time to time in one or more investment funds, which funds shall be registered under the Investment Company Act of 1940; and

(m) To do all other acts necessary or desirable for the proper administration of the Trust Fund, as if the Trustee were the absolute owner thereof.

Nothing in this section shall be construed to mean the Trustee assumes any responsibility for the performance of any investment made by the Trustee in its capacity as trustee under the operations of this Trust Agreement; provided that the foregoing shall not relieve the Trustee from liability for breaching its duty of care in making an investment selection hereunder (other than at the direction of the Committee). Notwithstanding any powers granted to the Trustee pursuant to this Trust Agreement or to applicable law, the Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code of 1986, as amended.

3.4 **Duty of Care.** The Trustee shall perform its duties hereunder with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims; provided, however, that the Trustee shall incur no liability to any person for any action taken pursuant to a direction given by the Committee prior to a Change in Control which is contemplated by, and in conformity with, the terms of each Plan or this Trust.

3.5 **Securities.** Voting or other rights in securities shall be exercised by the person or entity responsible for directing such investments, and the Trustee shall have no duty to exercise voting or proxy or other rights relating to any investment managed or directed by the Committee. If any foreign securities are purchased pursuant to the direction of the Committee, it shall be the responsibility of the person or entity responsible for directing such investments to advise the Trustee in writing of any laws or regulations, either foreign or domestic, that apply to such foreign securities or to the receipt of dividends or interest on such securities.

3.6 **Substitution.** Notwithstanding any provision of any Plan or the Trust to the contrary, the Company and/or any Subsidiary shall at all times have the power to reacquire the Trust Fund by substituting readily marketable securities (other than stock, a debt obligation or other security issued by the Company or any Subsidiary) and/or cash of an equivalent value and such other property shall, following such substitution, constitute the Trust Fund. Notwithstanding the foregoing, after a Change in Control, the Trustee, the Company and/or any Subsidiary shall have no power to substitute readily marketable securities for the Trust Fund.

3.7 **Distributions.**

(a) The establishment of the Trust and the payment or delivery to the Trustee of money or other property shall not vest in any Participant or Beneficiary any right, title, or interest in and to any assets of the Trust. To the extent that any Participant or Beneficiary acquires the right to receive payments under any of the Plans, such right shall be no greater than the right of an unsecured general creditor of the Company and the Subsidiaries and such Participant or Beneficiary shall have only the unsecured promise of the Company and the Subsidiaries that such payments shall be made.

(b) Concurrent with the establishment of this Trust, the Company shall deliver to the Trustee a schedule (the “Payment Schedule”) that indicates the amounts payable in respect of each Participant (and his or her Beneficiaries), provides a formula or formulas or other instructions acceptable to the Trustee for determining the amounts so payable, specifies the form in which such amount is to be paid (as provided for or available under each Plan), and the time of commencement for payment of such amounts. The Payment

Schedule shall be updated annually and upon a Change in Control and from time to time as is necessary thereafter. Except as otherwise provided herein, prior to a Change in Control, the Trustee shall make payments to the Participants and their Beneficiaries in accordance with such Payment Schedule. After a Change in Control, the Trustee shall make payments in accordance with the payment schedules provided by the Administrator (as defined in Section 3.7(i)). The Trustee, at the direction of the Committee or, after a Change in Control, on its own volition, may make any distribution required to be made by it hereunder by delivering:

(i) Its check payable to the person to whom such distribution is to be made, to the person, or, if prior to a Change in Control, to the Company for redelivery to such person; provided that before a Change in Control, the Committee may direct the Trustee to deliver one or more lump sum checks payable to the Company, and the Company shall prepare and deliver individual checks for each Participant or Beneficiary; or

(ii) Its check payable to an insurer for the benefit of such person, to the insurer, or, if prior to a Change in Control, to the Company for redelivery to the insurer; or

(iii) Contracts held on the life of the Participant to whom or with respect to whom the distribution is being made, to the Participant or Beneficiary, or, if prior to a Change in Control, to the Company for redelivery to the person to whom such distribution is to be made; or

(iv) If a distribution is being made, in whole or in part, of other assets, assignments or other appropriate documents or certificates necessary to effect a transfer of title, to the Participant or Beneficiary, or, if prior to a Change in Control, to the Company for redelivery to such person.

Notwithstanding the foregoing, if directed by the Committee and upon receipt of such documentation satisfactory to the Trustee, the Trustee shall pay all or part of a distribution to which a Participant or Beneficiary would otherwise be entitled under the terms of a Plan to the Company or Subsidiary in satisfaction of amounts validly owed by the Participant to the Company or Subsidiary for which the Company or Subsidiary previously requested but did not receive payment.

(c) If the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plans, the Company and the Subsidiaries shall make the balance of each such payment as it falls due. The Trustee shall notify the Company and the Subsidiaries when principal and earnings are not sufficient. To the extent that the total Trust assets available to make benefit payments to Participants or Beneficiaries who are currently entitled to payment are less than the liabilities of the Plans, the Trustee shall make benefit payments proportionate to the ratio of assets available to pay benefits to the total values of the liabilities.

(d) The Company and the Subsidiaries may make payment of benefits directly to Participants or their Beneficiaries as they become due under the terms of the Plans. The Company and the Subsidiaries shall notify the Trustee of their decisions to make payment of benefits directly prior to the time amounts are payable to Participants or their Beneficiaries.

(e) Notwithstanding anything contained in this Trust Agreement to the contrary, if at any time the Sub-Trust established to hold amounts deferred under the 2002 Plan is finally determined by the IRS not to be a "grantor trust" with the result that the income of the Sub-Trust is not treated as income of the Company or the Subsidiaries pursuant to Sections 671 through 679 of the Internal Revenue Code of 1986, as amended, or with respect to amounts deferred under both the 2002 Plan and the 2005 Plan, if a federal income tax is finally determined by the IRS to be payable by one or more Participants or Beneficiaries with respect to any interest in a Plan or the Trust Fund prior to payment of such interest to any such Participant or Beneficiary, the Trustee shall, upon direction by the Committee (or upon application to the Trustee by a Participant or Beneficiary after a Change in Control), distribute such share in a lump sum to each Participant or Beneficiary entitled thereto, regardless of whether such Participant's employment has terminated (provided such Participant has a vested interest in his or her accrued benefits under the Plan) and regardless of form and time of payments specified in or pursuant to the Plan. Any remaining assets (less any expenses or costs due under Sections 3.9 and 3.10 of this Trust Agreement) shall then be paid by the Trustee to the Company and the Subsidiaries in such amounts, and in the manner instructed by the Committee. If the value of the Trust Fund is less than the benefit obligations under the Plan, the foregoing described distributions will be limited to a Participant's share of the Trust Fund, determined by allocating assets to the Participant based on the ratio of the Participant's benefit obligations under the Plan to the total benefit obligations under the Plan. Prior to a Change in Control, the Trustee shall rely solely on the directions of the Committee with respect to the occurrence of the foregoing events and the resulting distributions to be made, and the Trustee shall not be responsible for any failure to act in the absence of such direction.

(f) The Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plans and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by the Company and the Subsidiaries.

(g) Prior to a Change in Control, payments by the Trustee shall be delivered or mailed to addresses supplied by the Committee and the Trustee's obligation to make such payments shall be satisfied upon such delivery or mailing. Prior to a Change in Control, the Trustee shall have no obligation to determine the identity of persons entitled to benefits or their mailing addresses. After a Change in Control, the Trustee shall have such obligations.

(h) Prior to a Change in Control, the entitlement of a Participant or his or her Beneficiaries to benefits under the Plans shall be determined by the Company and the Subsidiaries or such party as they shall designate under the Plans, and any claim for such benefits shall be considered and reviewed under the procedures set out in the Plans.

(i) Notwithstanding Section 3.7(h), upon and after the occurrence of a Change in Control, the Plans shall be administered by an independent third party (the "Administrator") selected by the Trustee and approved by the Ex-CEO. The Administrator shall have the discretionary power to determine all questions arising in connection with the administration of the Plans and the interpretation of the Plans and Trust including, but not limited to benefit entitlement determinations; provided, however, upon and after the occurrence of a Change in Control, the Administrator shall have no power to direct the investment of Plan or Trust assets or select any investment manager or custodial firm for the Plans or this Trust. Upon and after the occurrence of a Change in Control, the Company must: (1) pay all reasonable administrative expenses and fees of the Administrator; (2) indemnify the Administrator against any costs, expenses and liabilities including, without limitation, attorney's fees and expenses arising in connection with the performance of the Administrator hereunder, except with respect to matters resulting from the gross negligence or willful misconduct of the Administrator or its employees or agents; and (3) supply full and timely information to the Administrator or all matters relating to the Plans, the Trust, the Participants and their Beneficiaries, the Account Balances of the Participants, the date of circumstances of the Retirement, Disability, death or Termination of Employment of the Participants, and such other pertinent information as the Administrator may reasonably require. Upon and after a Change in Control, the Administrator may be terminated (and a replacement appointed) by the Trustee only with the approval of the Ex-CEO. Upon and after a Change in Control, the Administrator may not be terminated by the Company.

(j) If the Committee, the Internal Revenue Service, or any State tax authority shall determine that a Plan fails to meet the requirements of Code section 409A, the Trustee shall distribute to Participants the amount required to be included in income as a result of such failure.

3.8 **Trustee Responsibility Regarding Payments on Insolvency**.

(a) The Trustee shall cease payment of benefits to Participants and their Beneficiaries as provided in subsection (b) if the Company, or any Subsidiary, is Insolvent (the “Insolvent Entity”). The Insolvent Entity shall be considered “Insolvent” for purposes of this Trust Agreement if:

(i) the Insolvent Entity is unable to pay its debts as they become due, or

(ii) the Insolvent Entity is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

For purposes of this Section 3.8, if an entity is determined to be Insolvent, each Subsidiary in which such entity has an equity interest shall also be deemed to be an Insolvent Entity. However, the insolvency of a Subsidiary will not cause a parent corporation to be deemed Insolvent.

(b) At all times during the continuance of this Trust, as provided in Section 1.3 above, the principal and income of the Trust shall be subject to claims of the general creditors of the Company and its Subsidiaries under federal and state law as set forth below:

(i) The Board and the chief executive officer of the Company shall have the duty to inform the Trustee in writing of the Company’s or any Subsidiary’s Insolvency. If a person claiming to be a creditor of the Company or any Subsidiary alleges in writing to the Trustee that the Company or any Subsidiary has become Insolvent, the Trustee shall determine whether the Company or any Subsidiary is Insolvent and, pending such determination, the Trustee shall discontinue payment of benefits to the Insolvent Entity’s Participants or their Beneficiaries. Prior to a Change in Control, the Trustee may conclusively rely on any determination it receives from the Board or the chief executive officer of the Company with respect to the Insolvency of the Company or any Subsidiary.

(ii) Unless the Trustee has actual knowledge of the Company’s or a Subsidiary’s Insolvency, or has received notice from the Company, a Subsidiary, or a person claiming to be a creditor alleging that the Company or a Subsidiary is Insolvent, the Trustee shall have no duty to inquire whether the Company or any Subsidiary is Insolvent. The Trustee may in all events rely on such evidence concerning the Company’s or any Subsidiary’s solvency as may be furnished to the Trustee and that provides the Trustee with a reasonable basis for making a determination concerning the Company’s or any Subsidiary’s solvency. In this regard, the Trustee may rely upon a letter from the Company’s or a Subsidiary’s auditors as to the Company’s or any Subsidiary’s financial status.

(iii) If at any time the Trustee has determined that the Company or any Subsidiary is Insolvent, the Trustee shall discontinue payments to the Insolvent Entity's Participants or their Beneficiaries, and shall hold the portion of the assets of the Trust allocable to the Insolvent Entity for the benefit of the Insolvent Entity's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of Participants or their Beneficiaries to pursue their rights as general creditors of the Insolvent Entity with respect to benefits due under the Plans or otherwise.

(iv) The Trustee shall resume the payment of benefits to Participants or their Beneficiaries in accordance with this Article 3 of this Trust Agreement only after the Trustee has determined that the alleged Insolvent Entity is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if the Trustee discontinues the payment of benefits from the Trust pursuant to Section 3.8(b) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Participants or their Beneficiaries under the terms of the Plans for the period of such discontinuance, without interest thereon to reflect delayed payment, less the aggregate amount of any payments made to Participants or their Beneficiaries by the Company or any Subsidiary in lieu of the payments provided for hereunder during any such period of discontinuance. Prior to a Change in Control, the Committee shall instruct the Trustee as to such amounts, and after a Change in Control, the Trustee shall determine such amounts in accordance with the terms and provisions of the Plans.

3.9 **Costs of Administration.** The Trustee is authorized to incur reasonable obligations in connection with the administration of the Trust, including attorneys' fees, Administrator fees, other administrative fees and appraisal fees. Such obligations shall be paid by the Company and the Subsidiaries. The Trustee is authorized to pay such amounts from the Trust Fund if the Company or the Subsidiaries fail to pay them within 60 days of presentation of a statement of the amounts due that is not contested by the Company in writing before the expiration of such 60-day period. If any amounts payable hereunder are contested by the Company, the parties hereto shall cooperate to determine whether such amount should be paid.

3.10 **Trustee Compensation and Expenses.** The Trustee shall be entitled to reasonable compensation for its services as from time to time agreed upon between the Trustee and the Company. If the Trustee and the Company fail to agree upon a rate of compensation, or following a Change in Control, the Trustee shall be entitled to compensation at a rate equal to the rate charged by the Trustee for similar services rendered by it during the current fiscal year for other trusts similar to this Trust. The Trustee shall be entitled to reimbursement for expenses incurred by it in the performance of its duties as the Trustee, including reasonable fees for legal counsel. The Trustee's compensation and expenses shall be paid by the Company and the Subsidiaries. The Trustee is authorized to withdraw such amounts from the Trust Fund if the Company or the Subsidiaries fail to pay them within 60 days of presentation of a statement of the amounts due that is not contested by the Company in writing before the expiration of such 60-day period. If any amounts payable hereunder are contested by the Company, the parties hereto shall cooperate to determine whether such amount should be paid.

3.11 **Professional Advice.** The Company and the Subsidiaries specifically acknowledge that the Trustee and/or the Administrator may find it desirable or expedient to retain legal counsel (who may also be legal counsel for the Company generally) or other professional advisors to advise it in connection with the exercise of any duty under this Trust Agreement, including, but not limited to, any matter relating to or following a Change in Control or the Insolvency of the Company or any Subsidiary.

3.12 **Payment on Court Order.** To the extent permitted by law, the Trustee is authorized to make any payments directed by court order in any action in which the Trustee has been named as a party. The Trustee is not obligated to defend actions in which the Trustee is named, but shall notify the Company or Committee of any such action and may tender defense of the action to the Company, Committee, Participant or Beneficiary whose interest is affected. The Trustee shall defend any action in which the Trustee is named, and for which the Company has refused to provide defense of the action, and any expenses incurred by the Trustee shall be paid by the Company and the Subsidiaries if required under Section 3.13. The Trustee is authorized to pay such amounts from the Trust Fund if the Company or the Subsidiaries fail to pay them within sixty (60) days of presentation of a statement of the amounts due that is not contested by the Company in writing before the expiration of such 60-day period. If any amounts payable hereunder are contested by the Company, the parties hereto shall cooperate to determine whether such amount should be paid.

3.13 **Protective Provisions.** Notwithstanding any other provision contained in this Trust Agreement to the contrary, the Trustee shall have no obligation to (i) determine the existence of any conversion, redemption, exchange, subscription or other right relating to any securities purchased of which notice was given prior to the purchase of such securities and shall have no obligation to exercise any such right unless the Trustee is advised in writing by the Committee both of the existence of the right and the desired exercise thereof within a reasonable time prior to the expiration of the right to exercise, or (ii) advance any funds to the Trust. Furthermore, the Trustee is not a party to any Plan.

3.14 **Indemnifications.**

(a) The Company and the Subsidiaries shall indemnify and hold the Trustee harmless from and against all loss or liability (including expenses and reasonable attorneys' fees) to which it may be subject by reason of its execution of its duties under this Trust, or by reason of any acts taken in good faith in accordance with any directions, or acts omitted in good faith due to absence of directions, from the Company, the Committee or a Participant, except that the Trustee will not be so indemnified if such loss or liability is finally adjudged by a court of competent jurisdiction, or is determined by any other proceeding mutually agreeable to the Company and the Trustee, to have resulted from the Trustee's negligence or misconduct, or breach of its duties under this Trust Agreement. The indemnity described herein shall be provided by the Company and the Subsidiaries.

(b) The Company and the Subsidiaries shall indemnify and hold the Administrator harmless from and against all loss or liability (including expenses and reasonable attorneys' fees) to which it may be subject by reason of its execution of its duties under this Trust, or by reason of any acts taken in good faith in accordance with any directions, or acts omitted in good faith due to absence of directions, from the Company, the Committee or a Participant, unless such loss or liability is due to the Administrator's negligence or misconduct. The indemnity described herein shall be provided by the Company and the Subsidiaries.

(c) The Trustee shall indemnify and hold the Company, Subsidiaries and the Committee members harmless from and against all loss or liability (including expenses and reasonable attorneys' fees) to which they may be subject by reason of the Trustee's negligence or misconduct, or breach of its duties under this Trust Agreement, except that the Company, Subsidiaries and the Committee will not be so indemnified if such loss or liability is finally adjudged by a court of competent jurisdiction or is determined by any other proceeding mutually agreeable to the Trustee and the Company, to have resulted from the Company's negligence or misconduct, or breach of its duties under this Trust Agreement.

(d) All releases and indemnities provided in this Trust Agreement shall survive the termination of this Trust Agreement.

ARTICLE 4
Insurance Contracts

4.1 **Types of Contracts.** To the extent that the Trustee is directed by the Committee prior to a Change in Control to invest part or all of the Trust Fund in insurance contracts, the type and amount thereof shall be specified by the Committee. The Trustee shall be under no duty to make inquiry as to the propriety of the type or amount so specified.

4.2 **Ownership.** Each insurance contract issued shall provide that the Trustee shall be the owner thereof with the power to exercise all rights, privileges, options and elections granted by or permitted under such contract or under the rules of the insurer. The exercise by the Trustee of any incidents of ownership under any contract shall, prior to a Change in Control, be subject to the direction of the Committee.

4.3 **Restrictions on Trustee's Rights.** The Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy. Despite the foregoing, the Trustee may (i) loan to the Company or any Subsidiary the proceeds of any borrowing against an insurance policy held in the Trust Fund or (ii) assign all, or any portion, of a policy to the Company or any Subsidiary if under other provisions of this Trust Agreement the Company or any Subsidiary is entitled to receive assets from the Trust.

ARTICLE 5
Trustee's Accounts

5.1 **Records**. The Trustee shall maintain accurate records and detailed accounts of all investments, receipts, disbursements and other transactions hereunder. The Trustee shall separately account for the assets contributed by the Company and each of its Subsidiaries. Such records shall be available at all reasonable times for inspection by the Company and Subsidiaries or their authorized representative. The Trustee, at the direction of the Committee, shall submit to the Committee and to any insurer such valuations, reports or other information as the Committee may reasonably require and, in the absence of fraud or bad faith, the valuation of the Trust Fund by the Trustee shall be conclusive. The Trustee shall separately account for the assets contributed by the Company and its Subsidiaries for each Plan.

5.2 **Annual Accounting; Final Accounting.**

(a) Within 60 days following the end of each Plan Year and within 60 days after the removal or resignation of the Trustee or the termination of the Trust, the Trustee shall file with the Committee a written account setting forth a description of all properties purchased and sold, all receipts, disbursements and other transactions effected by it during the Plan Year or, in the case of removal, resignation or termination, since the close of the previous Plan Year, and listing the properties held in the Trust Fund as of the last day of the Plan Year or other period and indicating their values. Such values shall be either cost or market as directed by the Committee in accordance with the terms of the Plans.

(b) The Committee may approve such account either by written notice of approval delivered to the Trustee or by its failure to express written objection to such account delivered to the Trustee within 60 days after the date of which such account was delivered to the Committee.

(c) The approval by the Committee of an accounting shall be binding as to all matters embraced in such accounting on all parties to this Trust Agreement and on all Participants and Beneficiaries, to the same extent as if such accounting had been settled by a judgment or decree of a court of competent jurisdiction in which the Trustee, the Committee, the Company, the Subsidiaries and all persons having or claiming any interest in any Plan or the Trust Fund were made parties.

(d) Despite the foregoing, nothing contained in this Trust Agreement shall deprive the Trustee of the right to have an accounting judicially settled, if the Trustee, in the Trustee's sole discretion, desires such a settlement.

5.3 **Valuation.** The assets of the Trust Fund shall be valued at their respective fair market values on the date of valuation, as determined by the Trustee based upon such sources of information as it may deem reliable, including, but not limited to, stock market quotations, statistical valuation services, newspapers of general circulation, financial publications, advice from investment counselors, brokerage firms or insurance companies, or any combination of sources. Prior to a Change in Control, the Committee shall instruct the Trustee as to the value of assets for which market values are not readily obtainable by the Trustee. If the Committee fails to provide such values, the Trustee may take whatever action it deems reasonable, including employment of attorneys, appraisers, life insurance companies or other professionals, the expense of which shall be an expense of administration of the Trust Fund and payable by the Company and the Subsidiaries. The Trustee may rely upon information from the Company and the Subsidiaries, the Committee, appraisers or other sources and shall not incur any liability for an inaccurate valuation based in good faith upon such information.

5.4 **Delegation of Duties.** The Company or the Committee, or both, may at any time employ the Trustee as their agent to perform any act, keep any records or accounts and make any computations that are required of the Company, any Subsidiary or the Committee by this Trust Agreement or the Plans. The Trustee may be compensated for such employment and such employment shall not be deemed to be contrary to the Trust. Nothing done by the Trustee as such agent shall change or increase its responsibility or liability as Trustee hereunder.

ARTICLE 6
Resignation or Removal of Trustee

6.1 **Resignation; Removal.** The Trustee may resign at any time by written notice to the Company, which shall be effective 60 days after receipt of such notice unless the Company and the Trustee agree otherwise. Prior to a Change in Control, the Trustee may be removed by the Company on 60 days notice or upon shorter notice when accepted by the Trustee. After a Change in Control, the Trustee may only be removed by the Ex-CEO on 60 days notice or upon shorter notice accepted by the Trustee.

6.2 **Successor Trustee.** If the Trustee resigns or is removed, a successor shall be appointed by the Company, in accordance with this Section, by the effective date of the resignation or removal under Section 6.1 above. The successor shall be a bank, trust company, or similar independent third party that is granted corporate trustee powers under state or federal law. After the occurrence of a Change in Control, a successor Trustee may not be appointed without the consent of the Ex-CEO. If no such appointment has been made by the effective date of the resignation or removal, the Trustee may appoint a successor trustee or may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of the Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

6.3 **Settlement of Accounts.** Upon resignation or removal of the Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee in cash and/or in kind as directed the Committee, or after a Change of Control, as determined by the Trustee in consultation with the successor trustee. The transfer shall be completed within 90 days after receipt of notice of resignation, removal or transfer, unless the Company extends the time limit. Upon the transfer of the assets, the successor Trustee shall succeed to all of the powers and duties given to the Trustee in this Trust Agreement. The resigning or removed Trustee shall render to the Committee an account in the form and manner and at the time prescribed in Section 5.2. The approval of such accounting and discharge of the Trustee shall be as provided in such Section.

ARTICLE 7
Controversies, Legal Actions and Counsel

7.1 **Controversy.** If any controversy arises with respect to the Trust, the Trustee shall take action as directed by the Committee or, in the absence of such direction or after a Change in Control, as it deems advisable, whether by legal proceedings, compromise or otherwise. The Trustee may retain the funds or property involved without liability pending settlement of the controversy. The Trustee shall be under no obligation to take any legal action of whatever nature unless there shall be sufficient property in the Trust to indemnify the Trustee with respect to any expenses or losses to which it may be subjected.

7.2 **Joinder of Parties.** In any action or other judicial proceedings affecting the Trust, it shall be necessary to join as parties the Trustee, the Committee, the Company and the Subsidiaries. No Participant or other person shall be entitled to any notice or service of process. Any judgment entered in such a proceeding or action shall be binding on all persons claiming under the Trust. Nothing in this Trust Agreement shall be construed as to deprive a Participant or Beneficiary of his or her right to seek adjudication of his or her rights by administrative process or by a court of competent jurisdiction.

ARTICLE 8
Insurers

8.1 **Insurer Not a Party.** No insurer shall be deemed to be a party to the Trust and an insurer's obligations shall be measured and determined solely by the terms of contracts and other agreements executed by it.

8.2 **Authority of Trustee.** An insurer shall accept the signature of the Trustee to any documents or papers executed in connection with such contracts. The signature of the Trustee shall be conclusive proof to the insurer that the person on whose life an application is being made is eligible to have a contract issued on his or her life and is eligible for a contract of the type and amount requested.

8.3 **Contract Ownership.** An insurer shall deal with the Trustee as the sole and absolute owner of any insurance contracts and shall have no obligation to inquire whether any action or failure to act on the part of the Trustee is in accordance with or authorized by the terms of the Plans or this Trust Agreement.

8.4 **Limitation of Liability.** An insurer shall be fully discharged from any and all liability for any action taken or any amount paid in accordance with the direction of the Trustee and shall have no obligation to see to the proper application of the amounts so paid. An insurer shall have no liability for the operation of the Trust or the Plans, whether or not in accordance with their terms and provisions.

8.5 **Change of Trustee.** An insurer shall be fully discharged from any and all liability for dealing with a party or parties indicated on its records to be the Trustee until such time as it shall receive at its home office written notice of the appointment and qualification of a successor Trustee.

ARTICLE 9
Amendment and Termination

9.1 **Amendment.** Subject to the limitations set forth in this Section 9.1, this Trust Agreement may be amended by a written instrument executed by the Trustee and the Company. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Plans or shall make the Trust revocable after it has become irrevocable in accordance with Section 1.3 above.

(a) Writing and Consent. Any amendment to this Trust Agreement shall be set forth in writing and signed by the Company and the Trustee. Any amendment may be current, retroactive or prospective, in each case as provided therein.

(b) The Company and Trustee. In connection with the exercise of the rights under this Section 9.1(b):

(i) prior to a Change in Control, the Trustee shall have no responsibility to determine whether any proposed amendment complies with the terms and conditions of the Plans and may conclusively rely on the directions of the Committee with respect thereto, unless the Trustee has knowledge of a proposed transaction or transactions that would result in a Change in Control; and

(ii) after a Change in Control, the power of the Company to amend this Trust Agreement shall cease, and the power to amend that was previously held by the Company shall, instead, be exercised by the Ex-CEO, with the consent of the Trustee.

(c) Taxation. This Trust Agreement shall not be amended, altered, changed or modified in a manner that would cause the Participants and/or Beneficiaries under any Plan to be taxed on the benefits under any Plan in a year other than the year of actual receipt of benefits.

9.2 **Final Termination.** The Trust shall not terminate until the date on which (a) Participants and their Beneficiaries are no longer entitled to benefits pursuant to the terms of the Plans and all of the expenses of the Trust have been paid, or (b) the Company obtains written approval of all Participants and Beneficiaries with benefits accrued under the Plans at such time to forfeit all benefits under each Plan and to terminate the Trust. Upon termination of the Trust, any assets remaining in the Trust shall be returned to the Company and the Subsidiaries. Such remaining assets shall be paid by the Trustee to the Company and the Subsidiaries in such amounts and in the manner instructed by the Company, whereupon the Trustee shall be released and discharged from all obligations hereunder. From and after the date of termination and until final distribution of the Trust Fund, the Trustee shall continue to have all of the powers provided herein as are necessary or expedient for the orderly liquidation and distribution of the Trust Fund.

ARTICLE 10
Miscellaneous

10.1 **Directions Following Change in Control.** Despite any other provision of this Trust Agreement that may be construed to the contrary, following a Change in Control, all powers of the Committee, the Company and the Board to direct the Trustee under this Trust Agreement shall terminate, and the Trustee shall act on its own discretion to carry out the terms of this Trust Agreement in accordance with the Plans and this Trust Agreement.

10.2 **Taxes.** The Company and the Subsidiaries shall from time to time pay taxes of any and all kinds whatsoever that at any time are lawfully levied or assessed upon or become payable in respect of the Trust Fund, the income or any property forming a part thereof, or any security transaction pertaining thereto. To the extent that any taxes lawfully levied or assessed upon the Trust Fund are not paid by the Company and the Subsidiaries, the Trustee shall have the power to pay such taxes out of the Trust Fund and shall seek reimbursement from the Company and the Subsidiaries. Prior to making any payment, the Trustee may require such releases or other documents from any lawful taxing authority as it shall deem necessary. The Trustee shall contest the validity of taxes in any manner deemed appropriate by the Company or its counsel, but at the Company's and the Subsidiaries' expense, and only if it has received an indemnity bond or other security satisfactory to it to pay any such expenses. Prior to a Change in Control, the Trustee (i) shall not be liable for any nonpayment of tax when it distributes an interest hereunder on directions from the Committee, and (ii) shall have no obligation to prepare or file any tax return on behalf of the Trust Fund, any such return being the sole responsibility of the Committee. The Trustee shall cooperate with the Committee in connection with the preparation and filing of any such return. After a Change in Control, the Trustee shall have such duties and obligations.

10.3 **Third Persons.** All persons dealing with the Trustee are released from inquiring into the decisions or authority of the Trustee and from seeing to the application of any moneys, securities or other property paid or delivered to the Trustee.

10.4 **Nonassignability; Nonalienation.** Benefits payable to Participants and their Beneficiaries under this Trust Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

10.5 **The Plans.** The Trust and the Plans are parts of a single, integrated employee benefit plan system and shall be construed together. In the event of any conflict between the terms of this

Trust Agreement and the agreements that constitute the Plans, such conflict shall be resolved in favor of this Trust Agreement.

10.6 **Applicable Law.** Except to the extent, if any, preempted by ERISA, this Trust Agreement shall be governed by and construed in accordance with the internal laws of the State of California. Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

10.7 **Notices and Directions.** Whenever a notice or direction is given by the Committee to the Trustee, it shall be in the form required by Section 2.1. Actions by the Company shall be by the Board or a duly authorized officer, with such actions certified to the Trustee by an appropriately certified copy of the action taken. The Trustee shall be protected in acting upon any such notice, resolution, order, certificate or other communication believed by it to be genuine and to have been signed by the proper party or parties.

10.8 **Successors and Assigns.** This Trust Agreement shall be binding upon and inure to the benefit of the Company, the Subsidiaries and the Trustee and their respective successors and assigns.

10.9 **Gender and Number.** Words used in the masculine shall apply to the feminine where applicable, and when the context requires, the plural shall be read as the singular and the singular as the plural.

10.10 **Headings.** Headings in this Trust Agreement are inserted for convenience of reference only and any conflict between such headings and the text shall be resolved in favor of the text.

10.11 **Counterparts.** This Trust Agreement may be executed in an original and any number of counterparts, each of which shall be deemed to be an original of one and the same instrument.

10.12 **Beneficial Interest.** The Company and the Subsidiaries are the true beneficiaries hereunder in that the payment of benefits, directly or indirectly to or for a Participant or Beneficiary by the Trustee, is in satisfaction of the Company's and the Subsidiaries' liability therefore under the Plans. Nothing in this Trust Agreement shall establish any beneficial interest in any person other than the Company and the Subsidiaries.

10.13 **The Trust and Plans.** This Trust, the Plans and each Participant's Plan Agreement are part of and constitute a single, integrated employee benefit plan and trust, shall be construed together as the entire agreement between the Company, the Trustee, the Participants and the Beneficiaries with regard to the subject matter thereof, and shall supersede all previous negotiations, agreements and commitments with respect thereto.

10.14 **EffectiveDate.** The effective date of this amended and restated Trust Agreement shall be January 1, 2005.

IN WITNESS WHEREOF the Company and the Trustee have signed this amended Trust Agreement as of the date first written above.

TRUSTEE:

____

____

THE COMPANY:

Callaway Golf Company
a Delaware corporation,

By: ______________________________

Title: ______________________________

Exhibit 10.33

CALLAWAY GOLF COMPANY

EMPLOYEE STOCK PURCHASE PLAN
(as Amended and Restated Effective as of February 1, 2006)

The Callaway Golf Company Employee Stock Purchase Plan (the "Plan") (formerly the Callaway Golf Company 1999 Employee Stock Purchase Plan) is hereby amended and restated as follows.

1. Definitions

As used in the Plan the following terms shall have the meanings set forth below:

"*Applicable Percentage*" means the percentage used to determine the Exercise Price of shares with respect to a given Offering Period as determined by the Committee pursuant to Section 9 below.

"*Board*" means the Board of Directors of the Company.

"*Bonus Compensation*" means, with respect to each Participant for each calendar year or other period with respect to which a cash bonus is payable to such Participant, the amount of the cash bonus payable to such Participant for such calendar year or other period. Except as otherwise determined by the Committee, Bonus Compensation does not include:

(i) any amounts contributed by the Company or a Participating Subsidiary to any pension plan, deferred compensation plan, or other similar plan;

(ii) any automobile or relocation allowances (or reimbursement for any such expenses); or

(iii) any amounts paid as a starting bonus or finder's fee.

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Committee*" means the committee appointed by the Board to administer the Plan as described in Section 4 below.

"*Common Stock*" means the Common Stock, $0.01 par value, of the Company.

"*Company*" means Callaway Golf Company, a Delaware corporation.

"*Continuous Employment*" means the absence of any interruption or termination of service as an Employee with the Company and/or its Participating Subsidiaries. Continuous Employment shall not be considered interrupted in the case of a leave of absence agreed to in writing by the Company, provided that such leave is for a period of not more than ninety (90) days or reemployment upon the expiration of such leave is guaranteed by contract or statute.

"*Eligible Employee*" means, subject to limitations imposed by Section 423(b) of the Code, any Employee who is Continuously Employed by the Company or a Participating Subsidiary during the six (6) month period ending on a Grant Date. Each Employee who is an Eligible Employee as of a Grant Date shall be eligible to participate in the Plan for the Offering Period beginning on that Grant Date.

"*Eligible Regular Compensation*" means, with respect to each Participant for each pay period, except as otherwise determined by the Committee, the full base salary, wages, overtime pay and shift premiums paid to such Participant by the Company or a Participating Subsidiary, and does not include:

(i) bonuses,

(ii) any amounts contributed by the Company or a Participating Subsidiary to any pension plan or plan of deferred compensation,

(iii) any automobile or relocation allowances (or reimbursement for any such expenses),

(iv) any amounts paid as a starting bonus or finder's fee,

(v) commissions,

(vi) any amounts realized from the exercise of qualified or non-qualified stock options,

(vii) any amounts paid by the Company or a Participating Subsidiary for other fringe benefits, such as health and welfare, hospitalization and group life insurance benefits, or perquisites, or paid in lieu of such benefits, such as cash-out of credits generated under a plan qualified under Code Section 125, or

(viii) other similar forms of extraordinary compensation.

"*Employee*" means any person, including an officer, who is customarily employed for at least twenty (20) hours per week and more than five (5) months in a calendar year by the Company or one of its Participating Subsidiaries.

"*ESPP Broker*" has the meaning set forth in Section 17.

"*Exercise Date*" means the last day of each Offering Period.

"*Exercise Price*" means the price per share of shares offered in a given Offering Period determined as provided in Section 9 below.

"*Fair Market Value*" means, with respect to a share of Common Stock as of any Grant Date or Exercise Date, the closing price of such Common Stock on the New York Stock Exchange on such date, as reported in the Wall Street Journal or any other reliable source. In the event that such a closing price is not available for a Grant Date or an Exercise Date, the Fair Market Value of a share of Common Stock on such date shall be the closing price of a share of the Common Stock on the New York Stock Exchange on the last business day prior to such date or such other amount as may be determined by the Committee by any fair and reasonable means.

"*Grant Date*" means the first day of each Offering Period.

"*Offering Period*" means a period of six (6) months during which an option granted pursuant to the Plan may be exercised. A new Offering Period shall begin on each February 1 and August 1.

"*Participant*" means an Eligible Employee who has elected to participate in the Plan by filing an enrollment agreement with the Company as provided in Section 6 below.

"*Participating Subsidiary*" means any Subsidiary other than a Subsidiary excluded from participation in the Plan by the Committee, in its sole discretion.

"*Plan*" means this Callaway Golf Company Employee Stock Purchase Plan.

"*Plan Contributions*" means, with respect to each Participant, the payroll deductions and bonus deductions withheld from the Eligible Regular Compensation, commissions and/or Bonus Compensation, respectively, of such Participant and contributed to the Plan for such Participant as provided in Section 7 of the Plan, and any other amounts contributed to the Plan for such Participant in accordance with the terms of the Plan.

"Subsidiary" means any corporation, domestic or foreign, of which the Company owns, directly or indirectly, not less than 50% of the total combined voting power of all classes of stock or other equity interests and that otherwise qualifies as a "subsidiary corporation" within the meaning of Section 424(f) of the Code or any successor thereto.

2. Purpose of the Plan

The purpose of the Plan is to maintain a competitive equity compensation program to attract, motivate, retain and compensate present and future employees of the Company and its Participating Subsidiaries and to provide incentive for such employees to acquire a proprietary interest (or increase an existing proprietary interest) in the Company through the purchase of Common Stock, and therefore more closely align the interests of the employees and the shareholders. It is the intention of the Company that the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code. Accordingly, the provisions of the Plan shall be administered, interpreted and construed in a manner consistent with the requirements of that Section of the Code.

3. Shares Reserved for the Plan

There shall be reserved for issuance and purchase by Employees under the Plan an aggregate of 6 million shares of Common Stock, subject to adjustment as provided in Section 14 below. Shares of Common Stock subject to the Plan may be newly issued shares, shares reacquired in private transactions or open market purchases, or shares held in trust for issuance under the Plan. If and to the extent that any right to purchase reserved shares shall not be exercised by any Employee for any reason or if such right to purchase shall terminate as provided herein, shares that have not been so purchased hereunder shall again become available for the purposes of the Plan unless the Plan shall have been terminated, but all shares sold under the Plan, regardless of source, shall be counted against the limitation set forth above.

4. Administration of the Plan

(a) The Plan shall be administered by a Committee appointed by, and which shall serve at the pleasure of, the Board. The Committee shall consist of not less than two (2) members of the Board who are not officers or employees of the Company or of any of its Subsidiaries and the composition of the Committee shall be in accordance with the requirements to obtain or retain any available exemption from the operation of Section 16(b) of the Securities Exchange Act of 1934. The Committee shall have authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, and to make all other determinations necessary or advisable for the administration of the Plan, all of which actions and determinations shall be final, conclusive and binding on all persons. The Committee may delegate any of its duties hereunder to the Company's Chief Executive Officer and, in such case, any reference to the Committee shall also be deemed to include the Chief Executive Officer.

(b) The Committee may request advice or assistance or employ such other persons as it in its absolute discretion deems necessary or appropriate for the proper administration of the Plan, including, but not limited to employing a brokerage firm, bank or other financial institution to assist in the purchase of shares, delivery of reports or other administrative aspects of the Plan.

5. Offering Periods

The Plan shall be implemented by Offering Periods. The Committee shall have the power to change the duration and/or the frequency of Offering Periods with respect to future offerings without shareholder approval.

6. Election to Participate in the Plan

(a) Each Eligible Employee may elect to participate in an Offering Period under the Plan by completing an enrollment agreement in the form provided by the Company and filing such enrollment agreement with the Company prior to the applicable Grant Date of such Offering Period, unless another time for filing the enrollment form is set by the Committee for all Eligible Employees with respect to a given Offering Period. An Eligible Employee may participate in an Offering Period only if, as of the Grant Date of such Offering Period, such Employee is not participating in any prior Offering Period that is continuing at the time of such proposed enrollment.

(b) Except as otherwise determined by the Committee under rules applicable to all Eligible Employees, payroll deductions for a Participant shall commence on the first payroll date following the Grant Date and shall end on the last payroll date in the Offering Period to which such authorization is applicable, unless sooner terminated by the Participant as provided in Section 11.

(c) Unless a Participant elects otherwise prior to the Grant Date of the immediately succeeding Offering Period, an Eligible Employee who is participating in an Offering Period as of the last Exercise Date of such Offering Period (the "Prior Offering Period") shall be deemed (i) to have elected to participate in the immediately succeeding Offering Period and (ii) to have authorized the same payroll deduction for such immediately succeeding Offering Period as was in effect for such Participant immediately prior to the expiration or termination of the Prior Offering Period.

7. Payroll Deductions/Bonus Contributions

(a) Except as authorized by the Committee pursuant to Section 7(c) below, all Participant contributions to the Plan shall be made only by payroll deductions. At the time a Participant files the enrollment agreement with respect to an Offering Period, the Participant may authorize payroll deductions to be made on each payroll date during the Offering Period in an amount of from 1% to 15% (or such other percentage as determined by the Committee) of the Eligible Regular Compensation which the Participant receives on each payroll date during such Offering Period. The amount of such payroll deductions shall be a whole percentage (i.e., 1%, 2%, 3%, etc.) of the Participant's Eligible Regular Compensation. In addition, if permitted by the Committee, a separate deduction may be made for commissions paid to salespersons, provided that such deductions shall be an amount of from 1% to 15% (or such other percentage as determined by the Committee) of commissions and shall be a whole percentage and may be made only at the beginning of each Offering Period. In addition, a Participant may designate on a designation form all or some portion of such Participant's Bonus Compensation as a Plan Contribution. Elections for deduction amounts with respect to a Participant's Bonus Compensation may be made at the beginning of each Offering Period.

(b) A Participant may as of the beginning of any Offering Period reduce or increase (subject to the limitations of Section 7(a) above) the rate of his or her Eligible Regular Compensation, Bonus Compensation or commission deductions by completing and filing with the Company prior to the first day of such Offering Period a change notice in the form provided by the Company. In addition, a Participant may at any time during an Offering Period (but no more than once during each Offering Period) reduce the rate of his or her Eligible Regular Compensation, Bonus Compensation or commission deductions by completing and filing with the Company a change notice in the form provided by the Company. Any such reduction in the rate of a Participant's Eligible Regular Compensation, Bonus Compensation or commission deductions shall be effective as of the pay period specified by the Participant in the Participant's change notice, but in no event sooner than as may practicably be implemented by the Company. Any increase in the rate of a Participant's Eligible Regular Compensation, Bonus Compensation or commission deductions and, except as expressly provided above in this Section 7(b), any reduction in the rate of a Participant's Eligible Regular Compensation, Bonus Compensation or commission deductions shall be effective only as of the first day of the next Offering Period.

(c) Notwithstanding anything to the contrary in the foregoing, the Committee may permit Participants to make additional contributions to the Plan subject to such terms and conditions as the Committee may in its discretion determine. All such additional contributions shall be made in a manner consistent with the provisions of Section 423 of the Code or any successor thereto, and shall be held in Participants' accounts and applied to the purchase of shares of Common Stock pursuant to options granted under this Plan in the same manner as payroll deductions contributed to the Plan as provided above.

(d) All Plan Contributions made for a Participant shall be deposited in the Company's general corporate account and shall be credited to the Participant's account under the Plan. No interest shall accrue or be credited with respect to a Participant's Plan Contributions. All Plan Contributions received or held by the Company may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such Plan Contributions from any other corporate funds.

8. Grant of Options

(a) On the Grant Date of each Offering Period, subject to the limitations set forth in Sections 3 and 8(b) hereof, each Eligible Employee shall be granted an option to purchase on each Exercise Date during such Offering Period (at the Exercise Price determined as provided in Section 9 below) a number of shares of the Company's Common Stock determined by dividing such Eligible Employee's Plan Contributions accumulated prior to such Exercise Date and retained in his or her account as of the Exercise Date by the Exercise Price determined as provided in Section 9 below.

(b) Notwithstanding any provision of the Plan to the contrary, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary of the Company, or (ii) which permits such Employee's rights to purchase stock under all employee stock purchase plans of the Company and its Subsidiaries to accrue at a rate which exceeds $25,000 of fair market value of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

9. Exercise Price

The Exercise Price of each of the shares offered in a given Offering Period shall be the Applicable Percentage of the Fair Market Value of a share of Common Stock on the Exercise Date. The Applicable Percentage with respect to each Offering Period shall be 100% reduced by such number of percentage points (if any), not in excess of fifteen (15), as the Committee shall determine. For example, if the Committee determines to allow the maximum reduction of fifteen (15) percentage points with respect to an Offering Period, the Applicable Percentage with respect to such Offering Period will be 85%. The Committee shall establish the Applicable Percentage with respect to a given Offering Period not less than fifteen (15) days prior to the Grant Date with respect to such Offering Period; provided, however, that in the event that the Committee does not so establish the Applicable Percentage with respect to an Offering Period, the Applicable Percentage with respect to such Offering Period shall be the same Applicable Percentage as was in effect with respect to the immediately preceding Offering Period.

10. Exercise of Options

Unless the Participant withdraws from the Plan as provided in Section 11 below, the Participant's option for the purchase of shares will be exercised automatically on each Exercise Date, and the maximum number of shares (including, except as otherwise provided by the Committee, fractional shares) subject to option will be purchased for the Participant at the applicable Exercise Price with the accumulated Plan Contributions credited to the Participant's account under this Plan. Any amount remaining in the Participant's account after such purchase shall be returned to the Participant.

11. Withdrawal; Termination of Employment

(a) A Participant may withdraw all but not less than all of the Plan Contributions credited to the Participant's account under the Plan at any time by giving written notice to the Company. All of the Participant's Plan Contributions credited to the Participant's account will be paid to him or her as soon as administratively practical after receipt of the Participant's notice of withdrawal, the Participant's participation in the Plan will be automatically terminated, and no further payroll deductions for the purchase of shares will be made. Payroll deductions will not resume on behalf of a Participant who has withdrawn from the Plan (a "Former Participant") unless the Former Participant enrolls in a subsequent Offering Period in accordance with Section 6(a) hereof.

(b) Upon termination of a Participant's employment with the Company and/or its Participating Subsidiaries prior to the Exercise Date of an Offering Period for any reason, including retirement or death, the Plan Contributions credited to the Participant's account will be returned to the Participant or, in the case of death, to the Participant's estate, as soon as administratively practical, and the Participant's options to purchase shares under the Plan will be automatically terminated.

(c) In the event a Participant fails to maintain his or her status as an Employee during an Offering Period, the Participant will be deemed to have elected to withdraw from the Plan, the Plan Contributions credited to the Participant's account will be returned to the Participant as soon as administratively practical, and the Participant's options to purchase shares under the Plan will be terminated.

(d) A Participant's withdrawal from an Offering Period will not have any effect upon the Participant's eligibility to participate in any succeeding Offering Periods or in any similar plan that may hereafter be adopted by the Company.

12. Transferability

Options to purchase Common Stock granted under the Plan are not transferable by a Participant and are exercisable during a Participant's lifetime only by the Participant.

13. Reports

Individual accounts will be maintained for each Participant in the Plan. Statements of account will be given to Participants semi-annually in due course following each Exercise Date, which statements will set forth the amounts of payroll deductions, the per share purchase price, the number of shares purchased and the remaining cash balance, if any.

14. Adjustments Upon Changes in Capitalization

(a) If the outstanding shares of Common Stock of the Company are increased or decreased, or are changed into or are exchanged for a different number or kind of shares, as a result of one or more reorganizations, restructurings, recapitalizations, reclassifications, stock splits, reverse stock splits, stock dividends or the like, upon authorization of the Committee, appropriate adjustments shall be made in the number and/or kind of shares, and the per-share option price thereof, which may be issued in the aggregate and to any Participant upon exercise of options granted under the Plan.

(b) In the event of the sale, merger, dissolution or liquidation of the Company, the Offering Period will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee.

(c) In all cases, the Committee shall have full discretion to exercise any of the powers and authority provided under this Section 14, and the Committee's actions hereunder shall be final and binding on all Participants. No fractional shares of stock shall be issued under the Plan pursuant to any adjustment authorized under the provisions of this Section 14.

15. Amendment of the Plan

The Board may at any time, or from time to time, amend the Plan in any respect and for whatever reason; provided, however, that the Plan may not be amended in any way that will cause rights issued under the Plan to fail to meet the requirements for employee stock purchase plans as defined in Section 423 of the Code or any successor thereto, including, without limitation, shareholder approval if required.

16. Termination of the Plan

The Plan and all rights of Employees hereunder shall terminate on the earliest of:

(a) the Exercise Date that Participants become entitled to purchase a number of shares greater than the number of reserved shares remaining available for purchase under the Plan;

(b) such date as is determined by the Board in its discretion and for whatever reason; or

(c) the tenth anniversary of the date the Plan is approved by the Company's shareholders pursuant to Section 19 hereof.

In the event that the Plan terminates under circumstances described in Section 16(a) above, reserved shares remaining as of the termination date shall be sold to Participants on a *pro rata* basis.

17. Brokerage Account/Notice of Disposition

(a) If the Committee designates or approves one or more stock brokerage or other financial services firms (collectively, the "ESPP Broker") to hold shares purchased under the Plan for the accounts of Participants, the following procedures shall apply if so determined by the Committee. Promptly following each Exercise Date, the number of shares of stock purchased by each Participant shall be deposited into an account established in the Participant's name with the ESPP Broker. A Participant shall be free to undertake a sale of the shares of stock in his or her account at any time, but, in the absence of such a sale, the shares must remain in the Participant's account at the ESPP Broker for a period of at least two (2) years after the beginning of the Offering Period (or, if later, one (1) year after the applicable Exercise Date) with respect to which the shares were purchased. With respect to shares of stock for which the two (2) year (or, if applicable, one (1) year) requirement described in the previous sentence has been satisfied, the Participant may move those shares to another brokerage account of the Participant's choosing or request that a stock certificate be issued and delivered to him or her. Dividends paid in the form of shares of stock with respect to stock in a Participant's account with the ESPP Broker shall be credited to such account.

(b) By participating in the Plan, each Participant agrees to promptly give the Company notice of any stock disposed of within the later of one year from the Exercise Date and two years from the first day of the Offering Period for such stock, showing the number of such shares disposed of and the Exercise Date and Offering Period for such Stock. This notice shall not be required if and so long as the Committee has a designated ESPP Broker.

18. Notices

All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

19. Shareholder Approval

This amendment and restatement of the Plan shall be subject to approval by the shareholders of the Company within twelve months before or after the date the amended and restated Plan is adopted by the Board. If such shareholder approval is obtained at a duly held shareholders' meeting, it may be obtained by the affirmative vote of the holders of a majority of the outstanding shares of the Company present or represented and entitled to vote thereon. If such shareholder approval is not obtained, the amended and restated Plan shall be null and void and shall have no effect.

20. Conditions Upon Issuance of Shares

(a) The Plan, the grant and exercise of options to purchase shares of Common Stock under the Plan, and the Company's obligation to sell and deliver shares upon the exercise of options to purchase shares shall be subject to all applicable federal, state and foreign laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may, in the opinion of counsel for the Company, be required.

(b) The Company may make such provisions as it deems appropriate for withholding by the Company pursuant to federal or state income tax laws of such amounts as the Company determines it is required to withhold in connection with the purchase or sale by a Participant of any Common Stock acquired pursuant to the Plan. The Company may require a Participant to satisfy any relevant tax requirements before authorizing any issuance of Common Stock to such Participant.

21. Expenses of the Plan

All costs and expenses incurred in administering the Plan shall be paid by the Company, except that any stamp duties or transfer taxes applicable to participation in the Plan may be charged to the account of such Participant by the Company. Any brokerage fees for the purchase of shares by a Participant shall be paid by the Company, but any brokerage fees for the sale of shares by a Participant shall be borne by the Participant.

22. No Employment or Shareholder Rights

(a) The Plan does not, directly or indirectly, create any right for the benefit of any employee or class of employees to purchase any shares under the Plan, or create in any employee or class of employees any right with respect to continuation of employment by the Company, and it shall not be deemed to interfere in any way with the Company's right to terminate, or otherwise modify, an employee's employment at any time.

(b) With respect to shares of stock subject to an option under the Plan, a Participant shall not be deemed to be a shareholder of the Company, and he or she shall not have any of the rights or privileges of a shareholder. A Participant shall have the rights and privileges of a shareholder of the Company when, but not until, a certificate or its equivalent has been issued to the Participant for the shares following exercise of the Participant's option.

23. Applicable Law

This Plan and all matters hereunder shall be governed by and construed in accordance with the internal laws of the State of Delaware and applicable federal law.

Exhibit 10.47

GRANTOR STOCK TRUST

AMENDMENT NO. 3
TO
TRUST AGREEMENT

This Amendment No. 3 to Trust Agreement is made and entered into effective as of November 1, 2005, by Callaway Golf Company, a Delaware corporation ("Callaway Golf") whereupon Callaway Golf appoints Union Bank of California, N.A., a national banking association ("Union Bank of California" or the "Trustee") as Trustee, and shall be effective on the Trustee's receipt of Plan assets to be held in trust hereunder.

BACKGROUND

A. Effective on or about July 14, 1995, Callaway Golf and Sanwa Bank California ("Sanwa") entered into a certain Trust Agreement (the "Trust Agreement") establishing the Callaway Golf Company Grantor Stock Trust.

B. Effective on or about August 24, 2000 Sanwa assigned to Arrowhead Trust Incorporated, California, a California trust company ("Arrowhead"), all of Sanwa's rights, and Arrowhead assumed all of Sanwa's obligations, under the Trust Agreement.

C. Effective on or about June 29, 2001, Callaway Golf entered into Amendment No. 1 to the Trust Agreement.

D. Effective October 21, 2004, Callaway Golf entered into Amendment No. 2 to the Trust Agreement.

E. Callaway Golf, pursuant to Section 14.1 of the Trust Agreement, desires to amend the Trust Agreement upon the following terms.

AGREEMENT

In consideration of the foregoing Background, Callaway Golf does hereby amend the Trust Agreement and Amendments No. 1 and 2 upon the following terms.

1. Section 4.2.11 of the Trust Agreement is hereby deleted in its entirety, and in lieu thereof, the following shall be inserted:

> 4.2.11 To consult with legal counsel (who may be counsel for the Administrator) with respect to the interpretation of the Trust Agreement or the Trustee's duties

hereunder or with respect to any legal proceedings or any questions of law and shall be entitled to take action or not to take action in good faith reliance on the advice of such counsel.

To tender its defense to the Administrator in any legal proceeding where the interests of the Trustee and the Administrator are not adverse, provided that any legal counsel selected to defend the Trustee is acceptable to the Trustee. The Administrator may satisfy all or any part of its obligations under this section through insurance arrangements acceptable to the Trustee.

2. Section 9.4 of the Trust Agreement is hereby deleted in its entirety, and in lieu thereof, the following shall be inserted:

9.4 The Trustee shall not be liable for, and the Administrator agrees to indemnify and hold harmless the Trustee, its officers, directors, employees or agents, from and against any loss or liability, claims, demands, damages and expenses, (including reasonable attorneys' fees and costs incurred by the Trustee), any claims of breach of fiduciary duty brought by any person or entity, lawsuits, disputes of any kind, and any taxes or penalties incurred by the Trustee, which may arise from (i) any act taken by the Trustee in good faith in accordance with directions (or any failure to act in the absence of such directions) from the Administrator, Participant or any person reasonably believed by the Trustee to be their designee(s), (ii) the negligence or willful misconduct of the Administrator, Participant or any person reasonably believed by the Trustee to be their designee(s), and (iii) any act or omission by the Administrator, Participant or any person reasonably believed by the Trustee to be their designee(s) except in the event of the Trustee's gross negligence, willful misconduct or material breach of this Trust Agreement which directly relates to and causes the loss to the Trust.

In the event that any action or regulatory proceeding shall be commenced or a claim asserted which may entitle the Trustee to be indemnified hereunder, the Trustee shall give the Company written notice of such action or claim promptly after becoming aware of such commencement or assertion unless the Company has otherwise received notice of such action or claim. The Company shall be entitled to participate in and, upon notice to the Trustee, assume the defense of any such action or claim using counsel reasonably acceptable to the Trustee. The Trustee shall cooperate with the Company in connection with the defense of any such action or claim. Subject to Section 17 the Trustee shall have no claim on the assets of the Trust Fund in respect of amounts payable to the Trustee under this Subsection 9.4.

The Administrator may satisfy all or any part of its obligations hereunder through insurance arrangements acceptable to the Trustee

The indemnifications and releases provided herein shall survive termination of this Trust Agreement and shall apply to the parties' successors and assigns.

3. Sections 16.1 and 16.2 of the Trust Agreement are hereby deleted in their entirety, and in lieu thereof, the following shall be inserted:

16.1 To the Company, Board of Directors and Committee.

Communications to the Company, the Board of Directors and the Committee shall be addressed to:

Callaway Golf Company
2180 Rutherford Road
Carlsbad, California 92008-8815
Attention: Chief Financial Officer

With a copy to:

Callaway Golf Company
2180 Rutherford Road
Carlsbad, California 92008-8815
Attention: Chief Legal Officer

Provided, however that upon the Company's written request, such communications shall be sent to such other address as the Company may specify.

16.2 To the Trustee. Communications to the Trustee shall be addressed to:

Union Bank of California, N.A.
530 B Street
San Diego, CA 92101
Attention: Pamela Uyehara, Assistant Vice President

4. Section 19.9 shall be added to the Trust Agreement as follows:

Mediation and Arbitration of Disputes. If a dispute arises under this Trust Agreement between or among the Administrator and Trustee or any Participant, except as provided in Sections 5.1(b) and 6.4, the parties agree first to try in good faith to settle the dispute by mediation under the Commercial Mediation Rules of the American Arbitration Association. Thereafter, any remaining unresolved controversy or claim arising out of or relating to this Agreement, or the performance or breach thereof, shall be decided by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association and Title 9 of California Code of Civil Procedure Sections 1280 et seq. The sole arbitrator shall be a retired or former Judge associated with the American Arbitration Association. Judgment upon any award rendered by the arbitrator shall be final and may be entered in any court having jurisdiction. Each party shall bear its own costs, attorney’s fees and its share of arbitration fees. The Alternate Dispute Resolution Agreement in this Agreement does not constitute a waiver of the parties’ rights to a judicial forum in instances where arbitration would be void under applicable law, and does not preclude the Trustee from exercising its rights to interplead the funds of the Trust at the cost of the Trust.

* * * * * * * * Signature Page Follows * * * * * * * * *

Signature Page

The parties have signed this Trust Agreement on the dates indicated below.

Administrator

Callaway Golf Company

By: ______________________________
(Signature)
Bradley J. Holiday
(Typed or printed name)

Its: Senior Executive Vice President and Chief Financial Officer

Date: November 1, 2005

Trustee
UNION BANK OF CALIFORNIA, N.A.

By: ______________________________
(Signature)

____
(Typed or printed name)

Its: ______________________________ Date: ______________________________

By: ______________________________
(Signature)

____
(Typed or printed name)

Its: ______________________________ Date: ______________________________

Exhibit 10.50

ASSIGNMENT AND ASSUMPTION AGREEMENT

This Assignment and Assumption Agreement is made effective as of January 1, 2006, by and among Callaway Golf Company, a Delaware corporation ("Callaway Golf"), Union Bank of California, N.A., a California trust company ("Union Bank") and Arrowhead Trust Incorporated, a California trust company ("Arrowhead").

Background

A. On or about July 14, 1995, Callaway Golf and Sanwa Bank California ("Sanwa") entered into that certain Trust Agreement (as amended, the "Trust Agreement") establishing the Callaway Golf Company Grantor Stock Trust.

B. On or about December 29, 1995, pursuant to a Stock Purchase Agreement dated December 21, 1995, Sanwa, as trustee under the Trust Agreement, executed and delivered to Callaway Golf a Non-Recourse Promissory Note dated December 29, 1995, made payable to Callaway Golf in the original principal amount of $26,262,600 (the "Second Promissory Note"), and in exchange therefor purchased 1,300,000 shares of Callaway Golf Common Stock, as evidenced by Stock Certificate No. NY 17213 (the "Second Stock Certificate).

C. On or about April 21, 2000, Sanwa sold to Arrowhead a portion of it's trust business, including its rights and obligations with respect to the Second Promissory Note, the shares of Callaway Golf Common Stock represented by the Second Stock Certificate, the Trust Agreement and the trust fund under the Trust Agreement ("Trust Fund").

D. On or about July 10, 2001, pursuant to a Stock Purchase Agreement dated July 5, 2001, Arrowhead, as trustee under the Trust Agreement, executed and delivered to Callaway Golf a Non-Recourse Promissory Note dated July 10, 2001, made payable to Callaway Golf in the original principal amount of $90,281,862.51 (the "Third Promissory Note"), and in exchange therefor purchased 5,837,441 shares of Callaway Golf Common Stock.

E. Arrowhead has notified the Company that it is exiting the trust business and desires to resign as trustee under the Trust Agreement.

F. The Company has selected Union Bank as the successor trustee under the Trust Agreement.

G. The parties hereto desire to enter into this Assignment and Assumption Agreement to transfer Arrowhead's rights and obligations as trustee under the Trust Agreement to Union Bank.

Agreement

1. Assignment. Arrowhead does hereby assign, transfer and convey to Union Bank all of its right, title and interest in and to (i) the Trust Agreement, (ii) the Second Promissory Note and the Third Promissory Note, (iii) the shares represented by the Second Stock Certificate and the Third Stock Certificate, (iv) the Trust Fund, including all amounts held in the Trust Fund, (v) all reports, documents and other records relating in any manner whatsoever to the Trust Agreement or the Trust Fund and (vi) any other rights, agreements or instruments relating to any of the items referred to in items (i) through (v) of this sentence (collectively, the "Assigned Document and Assets").

2. Assumption. Union Bank does hereby accept the assignment set forth in Section 1 and does hereby agree as successor Trustee (as such term is used in the Trust Agreement) to pay, perform and discharge when due all of Arrowhead's obligations under the Assigned Documents and Assets, including any obligation arising prior to the date hereof which has not been paid, performed or discharged prior to the effectiveness of this Assignment and Assumption Agreement.

3. Consent. Callaway Golf does hereby consent to the assignment and assumption of the Assigned Documents and Assets as set forth above in Section 1 and Section 2.

4. Further Assurances. Arrowhead and Union Bank agree to execute and deliver such other agreements, documents and instruments as Callaway Golf may reasonably request to further effect the transfer from Arrowhead to Union Bank of all rights and obligations being assigned and assumed hereunder and all other related rights and obligations.

5. Notice. The address to where notice may be given to Union Bank under any of the Assigned Documents and Assets, including but not limited to, any notice provisions thereunder, shall be as follows:

Pamela Uyehara, Vice President
Union Bank of California, N.A.
530 B Street
San Diego, CA 92101

6. Settlement of Accounts. Arrowhead Agrees to provide by January 1, 2006, or such later date as Arrowhead and Callaway Golf shall mutually agree, the written account statement required by Section 10.2 of the Trust Agreement.

7. Counterparts. This Assignment and Assumption Agreement may be executed in one or more counterparts all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Assignment and Assumption Agreement as of the date first set forth above.

Arrowhead Trust Incorporated:

By: ______________________________
Print Name: Charles Paolino
Print Title: Vice President

Union Bank of California, N.A.:

By: ______________________________
Print Name: Pamela Uyehara
Print Title: Vice President

Callaway Golf Company:

By: ______________________________
Print Name: Bradley J. Holiday
Print Title: Senior Executive Vice President
and Chief Financial Officer

Exhibit 21.1

Subsidiaries	**State or country of Incorporation or Organization**
Callaway Golf Interactive,Inc.	Texas
Callaway Golf Sales Company	California
CGV, Inc.	California
All-American Golf LLC	California
Callaway Golf Canada Ltd.	Canada
Callaway Golf Europe Ltd.	United Kingdom
Callaway Golf (Germany) GmbH	Germany
Callaway Golf K.K.	Japan
Callaway Golf Korea Ltd.	Korea
Callaway Golf South Pacific Pty Ltd.	Australia
The Top-Flite Golf Company	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following registration statements of Callaway Golf Company, (1) No. 333-43756, No. 333-52020, No. 33-85692, No. 33-50564, No. 33-56756, No. 33-67160, No. 33-73680, No. 33-98750, No. 333-242, No. 333-5719, No. 333-5721, No. 333-24207, No. 333-27089, No. 333-39095, No. 333-61889, No. 333-84716, No. 333-84724, No. 333-95601, and No. 333-95603 on Form S-8, and (2) No. 33-77024 on Form S-3, of our reports dated February 23, 2006, relating to the consolidated financial statements and financial statement schedules of Callaway Golf Company, and management's report on the effectiveness of internal control over financial reporting appearing in this Annual Report on Form 10-K of Callaway Golf Company for the year ended December 31, 2005.

/s/ *DELOITTE & TOUCHE LLP*

Costa Mesa, California
February 23, 2006

Exhibit 24.1

Each of the non-employee directors who have signed the Annual Report on Form 10-K for the year ended December 31, 2005 have executed a limited power of attorney in the form set forth below:

FORM OF LIMITED POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that I, [Name of Director], a member of the Board of Directors of Callaway Golf Company, a Delaware corporation (the "Company"), with its principal executive offices in Carlsbad, California, do hereby constitute, designate and appoint each of Steven C. McCracken and Bradley J. Holiday, each of whom are executive officers of the Company, as my true and lawful attorneys-in-fact, each with power of substitution, with full power to act without the other and on behalf of and as attorney for me, for the purpose of executing and filing with the Securities and Exchange Commission the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and any and all amendments thereto, and to do all such other acts and execute all such other instruments which said attorney may deem necessary or desirable in connection therewith.

I have executed this Limited Power of Attorney effective as of February , 2006.

[Name of Director]

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, George Fellows, certify that:

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

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ GEORGE FELLOWS

George Fellows

President and Chief Executive Officer

Date: February 23, 2006

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Bradley J. Holiday, certify that:

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

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ BRADLEY J. HOLIDAY

Bradley J. Holiday
Senior Executive Vice President and
Chief Financial Officer

Date: February 23, 2006

Exhibit 32.1

**CERTIFICATION PURSUANT
TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Callaway Golf Company, a Delaware corporation (the "Company"), does hereby certify with respect to the Annual Report of the Company on Form 10-K for the year ended December 31, 2005, as filed with the Securities and Exchange Commission (the "10-K Report"), that:

(1) the 10-K Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

The undersigned have executed this Certification effective as of February 23, 2006.

/s/ GEORGE FELLOWS
George Fellows
President and Chief Executive Officer

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

A signed original of this Certification has been provided to Callaway Golf Company and will be retained by Callaway Golf Company and furnished to the Securities and Exchange Commission or its staff upon request.