

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 1998

OR

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

Commission file number 1-10962

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

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

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

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

The number of shares outstanding of the Registrant's Common Stock, \$.01 par value, as of April 30, 1998 was 74,753,314.

CALLAWAY GOLF COMPANY

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	March 31, 1998	December 31, 1997
	----- (Unaudited)	-----
ASSETS		

Current assets:		
Cash and cash equivalents	\$ 14,430	\$ 26,204
Accounts receivable, net	147,352	124,470
Inventories, net	142,036	97,094
Deferred taxes	24,714	23,810
Other current assets	11,438	10,208
	-----	-----
Total current assets	339,970	281,786
Property, plant and equipment, net	147,803	142,503
Intangible assets, net	116,348	112,141
Other assets	28,745	25,284
	-----	-----
	\$ 632,866	\$ 561,714
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		

Current liabilities:		
Accounts payable and accrued expenses	\$ 48,883	\$ 30,063
Line of credit	30,000	
Accrued employee compensation and benefits	15,569	14,262
Accrued warranty expense	30,158	28,059
Income taxes payable	4,129	
	-----	-----
Total current liabilities	128,739	72,384
Long-term liabilities	8,405	7,905
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred Stock, \$.01 par value, 3,000,000 shares authorized, none issued and outstanding at March 31, 1998 and December 31, 1997, respectively		
Common Stock, \$.01 par value, 240,000,000 shares authorized, 74,733,864 and 74,251,664 issued and outstanding at March 31, 1998, and December 31, 1997, respectively	747	743
Paid-in capital	351,283	337,403
Unearned compensation	(7,319)	(3,575)
Retained earnings	304,416	298,728
Accumulated other comprehensive income	295	(559)
Less: Grantor Stock Trust (5,300,000 shares) at market	(153,700)	(151,315)
	-----	-----
Total shareholders' equity	495,722	481,425
	-----	-----
	\$ 632,866	\$ 561,714
	=====	=====

See accompanying notes to consolidated condensed financial statements.

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

	Three Months Ended			
	1998		March 31, 1997	
	1998		1997	
Net sales	\$176,908	100%	\$169,073	100%
Cost of goods sold	93,203	53%	82,071	49%
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Gross profit	83,705	47%	87,002	51%
Operating expenses:				
Selling	35,792	20%	26,579	16%
General and administrative	20,504	12%	16,254	10%
Research and development	8,665	5%	5,953	4%
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Income from operations	18,744	11%	38,216	23%
Other (expense) income, net	(337)		1,383	
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Income before income taxes	18,407	10%	39,599	23%
Provision for income taxes	7,247		15,133	
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Net income	\$ 11,160	6%	\$ 24,466	14%
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Earnings per common share:				
Basic	\$ 0.16		\$ 0.36	
Diluted	\$ 0.16		\$ 0.34	
Common equivalent shares:				
Basic	69,184		68,016	
Diluted	71,173		71,763	
Dividends paid per share	\$ 0.07		\$ 0.07	

See accompanying notes to consolidated condensed financial statements.

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

	Three months ended	
	March 31,	
	1998	1997
Cash flows from operating activities:		
Net income	\$ 11,160	\$ 24,466
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,829	3,460
Non-cash compensation	4,298	4,309
Tax benefit from exercise of stock options	1,531	6,285
Deferred taxes	(1,650)	(380)
Increase (decrease) in cash resulting from changes in:		
Accounts receivable, net	(22,747)	(23,174)
Inventories, net	(42,508)	1,489
Other assets	(8,340)	(3,945)
Accounts payable and accrued expenses	16,034	22,720
Accrued employee compensation and benefits	3,902	(351)
Accrued warranty expense	2,099	(23)
Income taxes payable	6,835	6,635
Other liabilities	499	640
Net cash (used in) provided by operating activities	(22,058)	42,131
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(4,296)	
Capital expenditures	(12,104)	(11,503)
Net cash used in investing activities	(16,400)	(11,503)
Cash flows from financing activities:		
Issuance of Common Stock	1,927	4,359
Dividends paid	(4,846)	(4,773)
Retirement of Common Stock	(627)	(25,091)
Net proceeds from line of credit	30,000	
Net cash provided by (used in) financing activities	26,454	(25,505)
Effect of exchange rate changes on cash	230	43
Net (decrease) increase in cash and cash equivalents	(11,774)	5,166
Cash and cash equivalents at beginning of period	26,204	108,457
Cash and cash equivalents at end of period	\$ 14,430	\$113,623

See accompanying notes to consolidated condensed financial statements.

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

	Common Shares	Stock Amount	Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated other Comprehensive Income	GST	Total	Comprehensive Income
Balance, December 31, 1997	74,252	\$743	\$337,403	\$(3,575)	\$298,728	\$(559)	\$(151,315)	\$481,425	
Exercise of stock options	205	2	1,925					1,927	
Issuance of Restricted Common Stock	130	1	4,029	(4,030)					
Tax benefit from exercise of stock options			1,531					1,531	
Compensatory stock and stock options			345	286				631	
Employee stock purchase plan	167	2	3,665					3,667	
Stock retirement	(20)	(1)			(626)			(627)	
Cash dividends, net					(5,217)			(5,217)	
Dividends on shares held by GST					371			371	
Adjustment of GST shares to market value			2,385				(2,385)		
Equity adjustment from foreign currency						854		854	\$ 854
Net income					11,160			11,160	11,160
Balance, March 31, 1998	74,734	\$747	\$351,283	\$(7,319)	\$304,416	\$ 295	\$(153,700)	\$495,722	\$12,014

See accompanying notes to consolidated condensed financial statements.

CALLAWAY GOLF COMPANY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of presentation

The accompanying financial information for the three months ended March 31, 1998 and 1997 has been prepared by Callaway Golf Company (the "Company") and has not been audited. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented.

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

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

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

2. Inventories

Inventories at March 31, 1998 and December 31, 1997 (in thousands):

	March 31, 1998	December 31, 1997
	-----	-----
	(Unaudited)	
Inventories, net:		
Raw materials	\$ 59,791	\$ 47,780
Work-in-process	2,739	3,083
Finished goods	85,138	51,905
	-----	-----
	147,668	102,768
Less reserve for obsolescence	(5,632)	(5,674)
	-----	-----
	\$142,036	\$ 97,094
	=====	=====

3. Cash equivalents

Cash equivalents are highly liquid investments purchased with maturities of three months or less. Cash equivalents consist primarily of investments in money market accounts.

4. Bank line of credit

The Company has a \$150.0 million unsecured line of credit. At March 31, 1998, the amount available under the line of credit was \$117.2 million and the weighted-average interest rate of the outstanding borrowings was 5.8%. The line of credit has been primarily utilized to support portions of the Company's operations and the issuance of letters of credit, of which there were \$2.8 million outstanding at March 31, 1998.

The line of credit requires the Company to maintain certain financial ratios, including current and debt-to-equity ratios. The Company is also subject to other restrictive covenants under the terms of the credit agreement. As of March 31, 1998, the Company was in compliance with all such covenants.

5. Comprehensive income

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 130, "Reporting Comprehensive Income." This statement requires that all components of comprehensive income be reported in the financial statements in the period in which they are recognized. The components of comprehensive income for the Company include net income and foreign currency translation adjustments. In accordance with the provisions of APB 23, "Accounting for Income Taxes--Special Areas," the Company has elected the indefinite reversal criterion, and accordingly, does not accrue income taxes on foreign currency translation adjustments. The financial statements of prior periods presented have been reclassified for comparative purposes.

6. Earnings per share

Effective December 31, 1997, the Company adopted SFAS No. 128, "Earnings Per Share." This statement requires presentation of basic and diluted earnings per common share. All earnings per common share data reported in prior periods have been restated in accordance with SFAS No. 128. A reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations for the three months ended March 31, 1998 and 1997 is presented below.

	Three months ended March 31,					
	1998		1997			
	(Unaudited)					
	Net Income	Shares	Per-Share Amount	Net Income	Shares	Per-Share Amount
Net income	\$11,160			\$24,466		
Basic EPS		69,184	\$0.16		68,016	\$0.36
Dilutive Securities		1,989			3,747	
Diluted EPS		71,173	\$0.16		71,763	\$0.34

For the three months ended March 31, 1998 and 1997, 3,980,000 and 183,900 options outstanding were excluded from the calculations as their effect would have been antidilutive.

7. Commitments and contingencies

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

The Company has committed to purchase titanium golf clubheads costing approximately \$54.8 million from one of its vendors. These clubheads are to be shipped to the Company in accord with a production schedule that extends into 1999.

The Company and its subsidiaries, incident to their business activities, from time to time are parties to a number of legal proceedings in various stages of development. It is the opinion of the management of the Company that the probable result of these matters individually and in the aggregate will not have a material adverse effect upon the Company's financial position, results of operations or cash flows.

8. Subsequent event

On May 5, 1998, the Company purchased the remaining 80 percent equity interest in All-American Golf LLC ("All-American") for approximately \$4.5 million. Prior to this event, the Company had a 20 percent equity interest in All-American, which operates a nine-hole golf course, performance center, training facility and driving range located in Las Vegas, Nevada.

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

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

Certain Factors Affecting Callaway Golf Company

Growth in Sales; Profit Margins; Seasonality

The Company believes that the growth rate in the world-wide golf equipment market has been modest for the past several years and may now be declining. In addition, recent economic turmoil in Southeast Asia and Korea has caused a significant contraction in the retail golf markets in these countries and has had an adverse effect on the Company's sales and results of operations for the first quarter of 1998 and the fourth quarter of 1997. The Company expects this situation to continue until economic stability returns to these areas. Potential economic disruption from this turmoil in other areas, such as Japan and elsewhere in Asia, also could adversely impact the Company's future sales and results of operations. Additionally, sales in the U.S. of the Company's most profitable products -- Biggest Big Bertha(TM), Great Big Bertha(R) and Big Bertha(R) Metal Woods -- slowed in the first quarter of 1998, and may remain soft. No assurances can be given that the demand for the Company's existing products or the introduction of new products will permit the Company to experience growth in sales.

The Company experienced an increase in its cost of goods sold during the first quarter of 1998 and the third and fourth quarters of 1997 compared to historical levels. In the first quarter of 1998 this increase was primarily due to an increase in irons as a percentage of sales and credits, and discounts given on remaining Big Bertha(R) Iron inventory at retail, while in the third and fourth quarters of 1997 the increase was primarily due to a general increase in sales of irons, which have lower margins than metal woods, and an increase in sales to Japan, an area which has the lowest margins of all the areas in which the Company sells. If sales of irons as a percentage of the Company's total sales remain at these levels or continue to rise, the recent increase in cost of goods sold over historical levels will continue.

In the golf equipment industry, sales to retailers are generally seasonal due to lower demand in the retail market in the cold weather months covered by the fourth and first quarters. The Company's business generally follows this seasonal trend and the Company expects this to continue. Unusual or severe weather conditions such as the "El Nino" weather patterns experienced during the winter of 1997-1998 have compounded these seasonal effects and had an adverse effect on the Company's sales and results of operations for the first quarter of 1998. Such conditions could have a negative effect on the Company's future sales and results of operations.

Competition

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

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

New product introduction

The Company believes that the introduction of new, innovative golf equipment is important to its future success. As a result, the Company faces certain risks associated with such a strategy. For example, new models and basic design changes in golf equipment are frequently met with consumer rejection. In addition, prior successful designs may be rendered obsolete within a relatively short period of time as new products are introduced into the marketplace. New designs should generally satisfy the standards established by the United States Golf Association ("USGA") and the Royal and Ancient Golf Club of St. Andrews ("R&A") because these standards are generally followed by golfers within their respective jurisdictions. There is no assurance that new designs will receive USGA and/or R&A approval, or that

existing USGA and/or R&A standards will not be altered in ways that adversely affect the sales of the Company's products.

Reports have surfaced recently indicating that the USGA is evaluating steps that might prohibit or restrict the use of modern, thin-faced metal woods under the Rules of Golf. These reports predict that the USGA will promulgate by the year 2000 a rule establishing the maximum speed at which a golf ball can come off a clubhead, similar to the USGA's existing "overall distance" standard applicable to golf balls. The Company is aware of work ongoing at the USGA with regard to the performance of thin-faced metal woods, but it has been advised by the USGA that no decision has been made regarding new rules or rule interpretations applicable to golf clubs. Although all of the Company's current products have been approved by the USGA, it is possible that such reports and rumors about possible action by the USGA against thin-faced metal woods are having or may have a negative effect on the Company.

The Company's new products have tended to incorporate significant innovations in design and manufacture, which have resulted in increasingly higher prices for the Company's products relative to products already in the marketplace. There can be no assurance that a significant percentage of the public will always be willing to pay such prices for golf equipment. Thus, although the Company has achieved certain successes in the introduction of its golf clubs in the past, no assurances can be given that the Company will be able to continue to design and manufacture golf clubs that achieve market acceptance in the future.

The rapid introduction of new products by the Company can result in close-outs of existing inventories, both at the Company and at retailers. So far, the Company has managed such close-outs so as to avoid any material negative impact on the Company's operations. There can be no assurance that the Company will always be able to do so.

The Company plans its manufacturing capacity based upon the forecasted demand for its products. Actual demand for such products may exceed or be less than forecasted demand. If the Company is unable to produce sufficient quantities of new products in time to fulfill actual demand, especially during the Company's traditionally busy second and third quarters, it could limit the Company's sales and adversely affect its financial performance. On the other hand, the Company commits to components and other manufacturing inputs for varying periods of time, which can limit the Company's ability to quickly react if actual demand is less than forecast. This could result in excess inventories that could adversely affect the Company's financial performance. In addition, the Company's unique product designs often require sophisticated manufacturing techniques, which can limit the Company's ability to quickly expand its manufacturing capacity to meet the full demand for its products.

Product breakage

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 which use traditional designs. For example, clubs have been returned with cracked clubheads, broken graphite shafts and loose medallions. While any breakage or warranty problems are deemed significant to the Company, the incidence of clubs returned as a result of cracked clubheads, broken graphite shafts, loose medallions and other product problems to date has not been material in relation to the volume of Callaway Golf clubs which have been sold. The Company monitors closely the level and nature of any product breakage and, where appropriate, seeks to incorporate design and production changes to assure its customers of the highest quality available in the market. The Company's Biggest Big Bertha(TM) Drivers, because of their large clubhead size and extra long, light weight graphite shafts, have experienced shaft breakage at a rate higher than generally experienced with the Company's other metal woods. Significant increases in the incidence of shaft breakage or other product problems may adversely affect the Company's sales and image with golfers. The Company believes that it has sufficient reserves for warranty claims; however, there can be no assurance that these reserves will be sufficient if the Company were to experience an unusually high incidence of shaft breakage or other product problems.

Dependence on certain vendors and materials

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

The Company uses United Parcel Service ("UPS") for substantially all ground shipments of products to its domestic customers. The Company is considering alternative methods of ground shipping to reduce its reliance on UPS, but no change has been made. Any interruption in UPS services could have a material adverse effect on the Company's sales and results of operations.

The Company's size has made it a large consumer of certain materials, including titanium and carbon fiber. Callaway Golf 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 will always be able to do so. An

interruption in the supply of such materials or a significant change in costs could have a material adverse effect on the Company.

Intellectual property and proprietary rights

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

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

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

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

"Gray market" distribution

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

Professional endorsements

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

Many professional golfers throughout the world use the Company's golf clubs even though they are not contractually bound to do so. The Company has created cash "pools" that reward such usage. For the last several years, the Company has experienced an exceptional level of driver penetration on the world's five major professional tours, and the Company has heavily advertised that fact. There is no assurance that the Company will be able to sustain this level of professional usage. Many other companies are aggressively seeking the patronage of these professionals, and are offering many inducements, including specially designed products and significant cash rewards. While it is not clear whether professional endorsements materially contribute to retail sales, it is possible that a decline in the level of professional usage could have a material adverse effect on the Company's business.

During 1997, Callaway Golf continued its Big Bertha(R) Players' Pools ("Pools") for the PGA, SPGA, LPGA and Nike Tours. Those professional players participating in the Pools received cash for using Callaway Golf products in professional tournaments. The Company has established the 1998 Big Bertha(R) Players' Pools similar to the 1997 Pools, in which professional players participating in the Pools will receive cash for using certain Callaway Golf products in professional tournaments. The Company believes that its professional endorsements and its Pools contributed to its success on the professional tours in 1997. There is no guarantee, however, that the Company will be able to sustain this level of success.

New business ventures

The Company has invested, and expects to continue to invest, significant capital in new business ventures. Investments in these ventures have had a negative impact on the Company's cash flows and results of operations and will continue to do so for the next several years. There can be no assurance that these new ventures will lead to new product offerings or otherwise increase the revenues and profits of the Company. Like all new businesses, these ventures require significant management time, involve a high degree of risk and will present many new challenges for the Company. There can be no assurance that these activities will be successful, or that the Company will realize appropriate returns on its investments in these new ventures.

International distribution

The Company's management believes that controlling the distribution of its products throughout the world will be an element in the future growth and success of the Company. The Company is actively pursuing a reorganization of its international operations, including the acquisition of distribution rights in certain key countries in Europe, Asia and North America. These efforts have and will result in additional investments in inventory, accounts receivable, corporate infrastructure and facilities. The integration of foreign distributors into the Company's international sales operations will require the dedication of management resources which may temporarily detract from attention to the day-to-day business of the Company. Additionally, the integration of foreign distributors increases the Company's exposure to fluctuations in exchange rates for various foreign currencies which could result in losses and, in turn, could adversely impact the Company's results of operations. To date, losses resulting from exchange rate fluctuations have not had a significant adverse impact on the Company's results of operations. However, there can be no assurance that the Company will be able to mitigate this exposure in the future through its management of foreign currency transactions. International reorganization also could result in disruptions in the distribution of the Company's products in some areas. There can be no assurance that the acquisition of some or all of the Company's foreign distributors will be successful, and it is possible that an attempt to do so will adversely affect the Company's business.

The Company, through a distribution agreement, appointed Sumitomo Rubber Industries, Ltd. ("Sumitomo") as the sole distributor of the Company's golf clubs in Japan. The current distribution agreement began in February 1993 and runs through December 31, 1999. The Company does not intend to extend this agreement.

The Company has established ERC International Company ("ERC"), a wholly-owned Japanese corporation, for the purpose of distributing Odyssey(R) products immediately, Callaway Golf balls when ready and Callaway Golf clubs beginning January 1, 2000. There will be significant costs and capital expenditures invested in ERC before there will be sales sufficient to support such costs. Furthermore, there are significant risks associated with the Company's intention to effectuate distribution in Japan through ERC, and it is possible that doing so will have a material adverse effect on the Company's operations and financial performance.

Golf ball development

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

The Company has determined that Callaway Golf Ball Company will enter the golf ball business by developing a new product in a new plant to be constructed just for this purpose. The successful implementation of the Company's strategy could be adversely affected by various risks, including, among others, delays in product development, construction delays and unanticipated costs. There can be no assurance if and when a successful golf ball product will be developed or that the Company's investments will ultimately be realized.

The Company's golf ball business is in the early stages of development and has had a negative impact on the Company's cash flows and results of operations and will continue to do so for the next several years. The Company believes that many of the same factors which affect the golf equipment industry, including growth rate in the golf equipment industry, intellectual property rights of others, seasonality and new product introductions, also apply to the golf ball business. In addition, the golf ball business is highly competitive with a number of well-established and well-financed competitors. These competitors have established market share in the golf ball business which will need to be penetrated in order for the Company's golf ball business to be successful.

Year 2000 and euro compliance

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

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

Many of the countries in which the Company sells its products are Member States of the Economic and Monetary Union ("EMU"). Beginning January 1, 1999 Member States of the EMU may begin trading in either their local currencies or the euro, the official currency of EMU participating Member States. Parties are free to choose the unit they prefer in contractual relationships during the transitional period, beginning January 1999 and ending June 2002. As noted above, the Company is in the process of installing a new computer system at its subsidiaries. This new system, which will run substantially all of the principal data processing and financial reporting software of these subsidiaries, will contain the functionality to process transactions in either a country's local currency or euro beginning in late 1999, after the implementation of an upgrade. Until such time as the upgrade has occurred, transactions denominated in euro will be processed manually. The Company does not anticipate a large demand from its customers to transact in euros. Additionally, the Company does not believe that it will incur material costs specifically associated with manually processing data or preparing its business systems to operate in either the transitional period or beyond. However, there can be no assurance that the conversion of EMU Member States to euro will not have a material adverse effect on the Company and its operations.

Results of Operations

Three-month periods ended March 31, 1998 and 1997:

Net sales increased 5% to \$176.9 million for the three months ended March 31, 1998 compared to \$169.1 million for the comparable period in the prior year. The increase was largely attributable to sales of Odyssey(R) product, which contributed \$10.1 million to net sales during the first quarter of 1998. This increase was partially offset by a decrease in net sales of Callaway(R) product during the first quarter of 1998 as compared with the comparable period of the prior year. The decrease in Callaway(R) product sales is primarily attributable to decreases in metal wood sales. Overall sales were affected by decreases in sales in California and Florida, the markets most negatively affected by the unusual "El Nino" weather conditions, and economic problems in the non-Japanese Asian markets, partially offset by an increase in iron sales associated with the introduction of Big Bertha(R) X-12 Irons.

For the three months ended March 31, 1998, gross profit decreased 4% to \$83.7 million from \$87.0 million for the comparable period in the prior year. As a percentage of net sales, gross profit decreased to 47% from 51% for the quarter ended March 31, 1998 as compared to the comparable quarter of the prior year, primarily as a result of slightly higher cost of sales due to a general increase in sales of irons, which have lower margins than metal woods, as a percentage of the Company's total sales, and credits and discounts given to customers on remaining Big Bertha(R) Iron inventory at retail. Additionally, the Company has experienced a higher rate of return of metal woods over the past several quarters as compared to that previously experienced. As a result, the Company has increased the rate at which it reserves for warranty claims, further reducing its gross margin for the three months ended March 31, 1998.

Selling expenses increased to \$35.8 million in the first quarter of 1998 compared to \$26.6 million in the first quarter of 1997. As a percentage of net sales, selling expenses increased to 20% from 16% during the first quarter of 1998 over the first quarter of 1997. The \$9.2 million increase is primarily the result of selling expenses related to Odyssey, increased pro tour expenses primarily resulting from tour signage, and increased advertising and promotional costs.

General and administrative expenses increased to \$20.5 million for the three months ended March 31, 1998 from \$16.3 million for the comparable period in the prior year. As a percentage of net sales, general and administrative expenses in the first quarter of 1998 increased to 12% from 10%. The \$4.2 million increase is primarily attributable to general and administrative costs related to Odyssey, including amortization of intangibles associated with the purchase of substantially all of the assets and certain liabilities of Odyssey Sports, Inc., and costs associated with operations of Callaway Golf Ball Company.

Research and development expenses increased to \$8.7 million in the first quarter of 1998 compared to \$6.0 million in the comparable period of the prior year. As a percentage of net sales, research and development expenses in the first quarter of 1998 increased to 5% from 4% in the first quarter of 1997. The \$2.7 million increase is primarily the result of increased product engineering costs associated with casting technology, and costs associated with golf ball development.

Liquidity and Capital Resources

At March 31, 1998, cash and cash equivalents decreased to \$14.4 million from \$26.2 million at December 31, 1997 primarily due to \$22.1 million used in operations. The decrease in cash flows from operations is primarily attributable to an increase in accounts receivable and inventories, partially offset by an increase in accounts payable and accrued expenses.

Also contributing to the decrease in cash during the period was cash used in investing activities of \$16.4 million, primarily resulting from capital expenditures for building improvements, machinery and computer equipment as well as the acquisition of the Company's distributors in Korea, Belgium and Denmark.

The decreases in cash flows from operations and investing activities were partially offset by cash provided by financing activities, associated primarily with net proceeds from the Company's revolving line of credit as well as issuance of Common Stock, partially offset by dividends paid.

Historically, the Company's principal source of liquidity, both on a short-term and long-term basis, has been cash flow provided by operations. The Company increased its line of credit facility from \$50.0 million to \$150.0 million in February 1998. The Company has borrowed against its line of credit to supplement cash flow used in operations based upon the Company's need to increase its inventory levels and finance additional operational activities during the quarter ended March 31, 1998. At March 31, 1998, the Company had available \$117.2 million on this line of credit. The Company intends to repay its borrowings on its line of credit with cash flow from operations. The Company believes that, based upon its current operating plan, analysis of its consolidated financial position and projected future results of operations, it will be able to maintain its current level of operations, including planned capital expenditures for the foreseeable future, through operating cash flows and available borrowings under its line of credit. There can be no assurance, however, that future industry specific developments or general economic trends will not adversely affect the Company's operations or its ability to meet its cash requirements.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

The Company and its subsidiaries, incident to their business activities, from time to time are parties to a number of legal proceedings in various stages of development. It is the opinion of the management of the Company that the probable result of these matters individually and in the aggregate will not have a material adverse effect upon the Company's financial position, results of operations or cash flows.

Item 2. Changes in Securities:

None

Item 3. Defaults Upon Senior Securities:

None

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

None

Item 5. Other Information:

On May 12, 1998, the Company issued a press release announcing the continued adverse impact of market conditions on its second quarter 1998 sales and earnings, which press release is attached hereto as Exhibit 99 and incorporated herein by reference.

The Company previously reported in a February 27, 1998 press release that it expected first quarter 1998 sales and earnings to be lower than expected due to unusual severe weather patterns related to "El Nino" and the "Asian Flu." Although the Company believes that the "El Nino" weather patterns have now largely dissipated, and should not be a continuing concern, the "Asian Flu" appears to have worsened, and may be having a negative impact on business in Japan, which accounted for about 10% of the Company's revenues in 1997.

Moreover, metal wood sales continue to be soft in the second quarter of 1998. The Company believes this is largely the result of extensive and continuing price reductions by competitors as well as competition from new competitors in the metal woods market. Additionally, there is some indication that demand for premium priced titanium metal woods in general has softened, affecting the entire golf club industry. Retail sales reports also indicate that the domestic putter market is down generally, and as a result, sales of Odyssey(R) putters by the Company's wholly-owned subsidiary, Odyssey Golf, Inc., are also expected to be below targets for the quarter ended June 30, 1998.

While sales of the Company's newly introduced Big Bertha(R) X-12(TM) Irons continue to be strong, both domestically and internationally, sales of the Company's other irons, Great Big Bertha(R) Tungsten.Titanium(TM) Irons in particular, have softened. The Company makes smaller profit margins from sales of its irons as compared to the margins earned on sales of its metal woods.

The Company also stated that reports have surfaced indicating that the USGA, the governing body of golf in the United States, is evaluating steps that might prohibit or restrict the use of modern, thin-faced metal woods under the Rules of Golf. These reports predict that the USGA will promulgate by the Year 2000 a rule establishing the maximum speed at which a golf ball can come off a clubhead, similar to the USGA's existing "overall distance" standard applicable to golf balls. The Company is aware of work ongoing at the USGA with regard to the performance of thin-faced metal woods, but it has been advised by the USGA that no decision has been made regarding new rules or rule interpretations applicable to golf clubs. Although all of the Company's current products have been approved by the USGA, it is possible that such reports and rumors about possible action by the USGA against thin-faced metal woods are having or may have a negative effect on the Company.

The foregoing summary does not purport to be complete and is qualified in its entirety by reference to the full text of the press release, a copy of which is attached hereto as Exhibit 99.

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

a. Exhibits:

- 10.12 Executive Deferred Compensation Plan (as amended and restated, effective January 1, 1998).
- 10.20 Revolving Loan Agreement, dated February 4, 1998 among Callaway Golf Company, certain lenders therein named and Wells Fargo Bank, National Association as Administrative Agent.
- 10.23 Operating Agreement for Callaway Golf Media Ventures, LLC, a California Limited Liability Company, executed as of January 26, 1998, by and between Callaway Golf Company and Callaway Editions, Inc.
- 27 Financial Data Schedule.
- 99 Callaway Golf Company Press Release entitled "Market Conditions will Continue to Adversely Impact Callaway Golf Company's Second Quarter 1998 Sales and Earnings," dated May 12, 1998.

b. Reports on Form 8-K:

None

SIGNATURES

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

CALLAWAY GOLF COMPANY

Date: May 14, 1998

/s/ Donald H. Dye

Donald H. Dye
President and
Chief Executive Officer

/s/ David A. Rane

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

EXHIBIT INDEX

Exhibit Number -----	Description -----
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CALLAWAY GOLF COMPANY
EXECUTIVE DEFERRED COMPENSATION PLAN
(As Amended and Restated Effective January 1, 1998)

This Executive Deferred Compensation Plan ("Plan") has been adopted by the Board of Directors of Callaway Golf Company, a California corporation ("Company"), effective August 1, 1994, as amended effective January 1, 1996 and November 1, 1997 and restated effective January 1, 1998.

1. PURPOSE

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

2. DEFINITIONS AND CAPITALIZED TERMS

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

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

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

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

c. "Board" or "Board of Directors" refers to the Board of Directors of the Company.

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

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

f. "Company," "Corporation" or "Employer" refers to Callaway Golf Company, a California corporation.

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

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

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

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

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

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

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

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

o. "Hardship" refers to an Employee's immediate and heavy financial need caused by an unforeseeable emergency, as described in Treasury Regulations Section 1.457-2(h)(4) and (5). In general, but without limitation, the Plan Administrator shall approve a Hardship withdrawal from an Employee's Account if the reduction does not exceed the amount needed to pay for the following unreimbursed

expenses: (i) medical expenses defined in Code Section 213(d) and incurred (or to be incurred) during the calendar year by the Employee, or his or her spouse or dependents (as described in Code Section 152) as a result of a sudden or unexpected illness or accident; (ii) loss of a participant's property as a result of a casualty or other extraordinary, unforeseeable circumstances attributable to forces beyond the participant's control; and (iii) other costs recognized by the Plan Administrator to pose an immediate and heavy financial need on the Employee as a result of an unforeseeable emergency.

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

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

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

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

t. "Plan Administrator" refers to the Company.

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

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

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

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

3. ELIGIBILITY

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

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

4. DEFERRAL OF COMPENSATION

4.1 Election to Defer

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

4.2 Date of Deferral

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

4.3 Multiple Elections

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

4.4 Annual Elections

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

4.5 No Deferral Adjustments

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

4.6 New Eligible Employees and Outside Directors

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

5. DEFERRED COMPENSATION ACCOUNTS

5.1 Maintenance of Accounts

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

5.2 Investment Elections

In accordance with rules, procedures and options established by the Committee, a Participant shall have the right to express preferences with respect to the investment of his or her Account, except for any period of time during which the Company limits Account earnings to interest accruals under Section 5.4 below. Although the Company shall have the hypothetical obligation to follow the Participant's investment preferences, the Company, in its sole discretion, may satisfy its hypothetical obligation from time to time in one or both of the following ways. First, the Company

may invest assets hypothetically allocable to the Participant's Accounts in the specific investments, in the specific amounts and for the specific periods requested by the Participant; and the Company must credit or charge the Participant's Accounts with the earnings, gains or losses resulting from such investments. Second, the Company may invest assets hypothetically allocable to the Participant's Accounts in any manner, in any amount and for any period of time which the Company in its sole discretion may select; but the Company must credit or charge the Participant's Accounts with the same earnings, gains or losses that the Participant would have incurred if the Company had invested the assets hypothetically allocable to the Participant's Accounts in the specific investments, in the specific amounts and for the specific periods requested by the Participant. In accordance with procedures established by the Plan Administrator, a Participant may change his or her investment preferences twice each Plan Year. Such changes may be made, if at all, during the three-week period immediately following the quarterly distribution of individual account statements. If this Plan is determined to be subject to the fiduciary provisions of Part 4 of Title I of ERISA, this Plan shall be treated as a Plan described in Section 404(c) of ERISA and Title 29 of the Code of Federal Regulations Section 2550.404c-1, in which Plan fiduciaries may be relieved of liability for any losses which are the direct and necessary result of investment instructions given by a Participant or Beneficiary.

5.3 Investment Earnings or Losses -----

Except for any period of time during which the Company limits bookkeeping Account earnings to hypothetical interest accruals under Section 5.4 below, any amounts credited to the bookkeeping Account of a Participant or Inactive Participant as a result of the deferral of all or part of his or her Compensation may increase or decrease as a result of the Company's investment of such amounts during the Plan Year, as described in Section 5.2 above. A ratable share of the Plan's hypothetical investment earnings or losses under this Section 5.3 shall be credited to the bookkeeping Account of a Participant or Inactive Participant, as determined in good faith by the Committee. At the sole discretion of the Committee, for any Plan Year, the Committee may allocate to the Participant's bookkeeping Account either (i) the full amount of the Participant's share of the Plan's hypothetical investment earnings or losses or (ii) the full amount of such share adjusted for any federal, state or local income or employment tax consequences attributable to such hypothetical earnings or losses. If the full amount of such hypothetical investment earnings or losses are allocated to a Participant's Account, any federal, state or local income or employment tax consequences attributable to such earnings or losses under this Section 5.3 shall be borne by or inure to the benefit of the Company. The Participant and his or her Beneficiary understand and agree that they assume all risk in connection with any decrease in the value of the Compensation deferred under the Plan and invested in accordance with these Sections 5.2 and 5.3.

5.4 Interest Accruals -----

During each Plan Year in which the Company does not invest an Employee's deferred Compensation as described in Sections 5.2 and 5.3 above, any amounts credited to the bookkeeping Account of a Participant or Inactive Participant as a result of the deferral of all or part of his or her Compensation shall accrue hypothetical interest compounded annually, as consideration for the use or forbearance of money. The hypothetical accrual of interest begins and the compounding of interest occurs on

January 1 of each Plan Year or, if later, the date on which an eligible Employee first defers Compensation under the Plan. The rate at which interest accrues shall equal the prime rate, plus one percent, offered to borrowers by a commercial bank in San Diego, California on December 31st of the Plan Year during which the accrual occurs. The Committee shall select the commercial bank before December 1 of the Plan Year during which the accrual occurs. At the sole discretion of the Company, for any Plan Year (i) the full amount of such hypothetical accrued interest may be allocated to a Participant's Account or (ii) adjusted for any federal, state or local income or employment tax consequences attributable to such interest, prior to allocating such hypothetical interest to a Participant's Account. If the full amount of such interest accruals are allocated to a Participant's Account, any federal, state or local income or employment tax consequences attributable to interest accruals under this Section 5.4 shall be borne by or inure to the benefit of the Company.

5.5 Investment of Unpaid Balances -----

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

5.6 Company Matching Contributions -----

a. At the end of any Plan Year for which an eligible Employee has deferred Compensation under this Plan, the Committee may add to his or her Accounts no more than the lesser of (1) \$25,000 or (2) an amount equal to the Company Matching Contribution which the Employee would have received if (i) the Employee had contributed, to the Company 401(k) Plan, the amounts deferred under this Plan and (ii) the limitations described in Section 1 above did not apply to the Company 401(k) Plan. Nothing in the preceding sentence shall require the Company to make Matching Contributions to the Account of any Participant in any Plan Year or create a presumption that Matching Contributions allocated under this Plan shall be determined with reference to Matching Contributions under the Company 401(k) Plan. Once credited to an Employee's Accounts under this Plan, the amounts described in the preceding sentence shall accrue the hypothetical investment return described in Sections 5.2, 5.3, 5.4 and 5.5 above, and shall be payable in accordance with Section 7 below.

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

c. Without regard to the number of years of service an Employee has completed with the Company or any Subsidiary and without regard to an Employee's Disability, if an Employee separates from service with the Company or any Subsidiary as a result of the Employee's gross misconduct, within the meaning of Part 6 of Title I of ERISA, regarding group health continuation coverage, or if the Employee engages in unlawful business competition with the Company or any of its subsidiaries, the Employee shall forfeit all amounts allocated to his or her bookkeeping Accounts

under Section 5.6(a) above and all hypothetical earnings thereon. Such forfeitures will be used to reduce the Company's obligation, if any, to make Matching Contributions to other Participants or to defray the expenses of administering the Plan.

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

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

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

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

5.7 Company's General Assets

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

6. EFFECT ON EMPLOYEE BENEFITS

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

7. PAYMENT OF DEFERRED COMPENSATION ACCOUNTS

7.1 Income Tax Obligations

The Plan Administrator may make payments before they would otherwise be due if, based on a change in the federal tax or revenue laws, a published ruling or similar announcement issued by the Internal Revenue Service, a regulation issued by the Secretary of the Treasury, a decision by a court of competent jurisdiction involving a Participant, Inactive Participant or Beneficiary or a closing agreement made under Section 7121 of the Internal Revenue Code that is approved by the Internal Revenue Service and involves a Participant, Inactive Participant or Beneficiary, the Plan Administrator determines that the Participant, Inactive Participant or Beneficiary has or will recognize income for federal income tax purposes with respect to amounts that are or will be payable under the Plan before they are to be paid. If an Employee is assessed federal, state or local income taxes by reason of, and computed on the basis of, his or her undistributed deferred Compensation or undistributed interest accruals, earnings or gains on his or her Account, the Employee shall notify the Company in writing of such assessment and there shall be distributed, within thirty (30) days following such notice, from the Employee's bookkeeping Account deferred Compensation, accrued interest, earnings or gains in an amount equal to such tax assessment, together with any interest due and penalties assessed thereupon; provided however, that if the Company determines that such assessment is improper, it may

request that the Employee contest the assessment, at the expense of the Company (which expense shall include all costs of appeal and litigation, including legal and accounting fees, and any additional interest assessed on the deficiency from and after the date of the Employee's notice to the Company); and during the period such contest is pending, the sums otherwise distributable pursuant to this Section 7.1 shall not be distributed.

7.2 In-Service Withdrawals

a. Withdrawals to Meet Hardships

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

b. Other Withdrawals

Prior to the termination of his or her employment, a Participant may not withdraw any funds from his or her Account, except as provided in Section 7.2.a. above. Notwithstanding the foregoing, the Plan Administrator may make in-service distributions upon the termination of the Plan.

7.3 Termination of Employment

Upon termination of the employment of a Participant or Inactive Participant, the Company shall distribute his or her Account under the Plan, as elected by the Participant or Inactive Participant, in a lump sum or in five, ten or fifteen substantially equal annual installments. The payment from the Account shall occur or commence within 30 days after the first day of the calendar year immediately following the calendar year in which the termination of employment occurs.

7.4 Disability

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

withdrawals shall reduce the amount available for subsequent distributions from the Account, as the Company in good faith may determine.

7.5 Death Prior to Commencement of Distributions

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

7.6 Death After Commencement of Distributions

Upon the death of a Participant or Inactive Participant after the commencement of any distribution in accordance with Sections 7.3 or 7.4 above, the balance remaining in the Account of such Participant or Inactive Participant shall be distributed to his or her Beneficiary in accordance with the terms elected by the Participant or Inactive Participant under Sections 7.3 or 7.4.

7.7 Default Distribution

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

7.8 Withholding and Other Tax Consequences

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

7.9 Payments to Outside Directors

a. Pre-Termination Withdrawals

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

b. Post-Termination Distributions

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

c. Income and Self-Employment Taxes

Because outside directors are not common-law employees of the Company, the Company has no responsibility to deduct, withhold or deposit any federal, state or local income or employment taxes. Outside directors are responsible for the determination, computation and satisfaction of any income, employment, estate, excise or other tax obligation with respect to the deferral of income, the allocation of hypothetical investment return, or the vesting in or distribution of Accounts under this Plan.

8. UNFUNDED STATUS OF PLAN

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

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

At all times during the continuance of any trust established in connection with this Plan ("Trust"), if the Plan Administrator determines that the Company's financial condition is likely to result in the suspension of benefit payments from the Trust, the

Plan Administrator shall advise Participants, Inactive Participants and Beneficiaries that payments from the Trust shall be suspended during the Company's insolvency. If the Trustee subsequently resumes such payments, the Administrator shall advise Participants, Inactive Participants and Beneficiaries that, if Trust assets are sufficient, the first payment following such discontinuance shall include the aggregate amount of all payments due to Participants, Inactive Participants and Beneficiaries under the terms of the Plan for the period of such discontinuance, less the aggregate amount of any payments made directly by the Company during any period of discontinuance. At no time shall any insufficiency of Trust assets relieve the Company of its obligation to make payments when due under the Plan.

10. NON-ALIENATION OF BENEFITS

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

11. LIMITATION OF RIGHTS

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

12. NOTICE UNDER WARN

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

13. AMENDMENT OR TERMINATION OF PLAN

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

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

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

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

14. ADMINISTRATIVE PROCEDURES AND DISPUTE RESOLUTION

14.1 Plan Administrator

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

14.2 Committee Organization and Procedures

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

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

14.3 Administrative Authority

The Company and the Committee have discretionary authority to perform all functions necessary or appropriate to the operation of the Plan, including without limitation authority to (a) construe and interpret the provisions of the Plan document and any related instrument and determine any question arising under the Plan document or related instrument, or in connection with the administration or operation thereof; (b) determine in its sole discretion all facts and relevant considerations affecting the eligibility of any Employee to be or become a Participant; (c) decide eligibility for, and the amount of, benefits for any Participant, Inactive Participant or Beneficiary; (d) authorize and direct all investments and disbursements under the Plan; and (e) employ and engage such persons, counsel and agents and to obtain such administrative, clerical, medical, legal, audit and actuarial services as it may deem necessary in carrying out the provisions of the Plan. The Company shall be the "administrator" as defined in Section 3(16)(A) of ERISA for purposes of the reporting and disclosure requirements of ERISA and the Code. The President of the Company, or in his or her absence, the Secretary of the Company shall be the agent for service of process on the Plan.

14.4 Expenses

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

14.5 Insurance

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

14.6 Claims Procedure

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

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

14.7 Appeal Procedures

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

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

14.8 Arbitration

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

transcript of the proceedings, administrative fees, and the arbitrator's fees shall be borne equally by the parties.

b. Except as otherwise specifically provided in this Plan, the provisions of this Section 14.8 shall be absolutely exclusive for any and all purposes and fully applicable to each and every dispute regarding the Plan including any claim which, if pursued through any state or federal court or administrative proceeding, would arise at law, in equity or pursuant to statutory, regulatory or common law rules, regardless of whether such claim would arise in contract, tort or under any other legal or equitable theory or basis. The arbitrator who hears or decides any claim under the Plan shall have jurisdiction and authority to award only compensatory damages to make whole a person or entity suffering foreseeable economic damages; and apart from such foreseeable economic damages, the arbitrator shall not have any authority or jurisdiction to make any award of any kind including, without limitation, punitive damages, unforeseeable economic damages, damages for pain and suffering or emotional distress, adverse tax consequences or any other kind or form of damages. The remedy, if any, awarded by such arbitrator shall be the sole and exclusive remedy for each and every claim which is subject to arbitration pursuant to this Section 14.8. Any limitations on the relief that can be awarded by the arbitrator are in no way intended (i) to create rights or claims that can be asserted outside arbitration or (ii) in any other way to reduce the exclusivity of arbitration as the sole dispute resolution mechanism with respect to this Plan.

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

14.9 Notices -----

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

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

14.10 Indemnification -----

To the extent permitted by law, the Company shall, and hereby does, indemnify and hold harmless any director, officer or employee of the Company or any Subsidiary who is or may be deemed to be responsible for the operation of the Plan, from and against any and all losses, claims, damages or liabilities (including attorneys' fees).

fees and amounts paid, with the approval of the Board, in settlement of any claim) arising out of or resulting from a duty, act, omission or decision with respect to the Plan, so long as such duty, act, omission or decision does not involve gross negligence or willful misconduct on the part of such director, officer or employee. Any individual so indemnified, shall, within 10 days after receipt of notice of any action, suit or proceeding, notify the President of the Company (or in the President's absence, the Chief Financial Officer of the Company) and offer in writing to the President (or Chief Financial Officer) the opportunity, at the Company's expense, to handle and defend such action, suit or proceeding, and the Company shall have the right, but not the obligation, to conduct the defense in any such action, suit or proceeding. An individual's failure to give the President (or Chief Financial Officer) such notice and opportunity shall relieve the Company of any liability to said individual under this Section 14.10. The Company may satisfy its obligations under this provision (in whole or in part) by the purchase of insurance. Any payment by an insurance carrier to or on behalf of such individual shall, to the extent of such payment, discharge any obligation of the Company to the individual under this indemnification.

15. MISCELLANEOUS

15.1 Alternative Acts and Times

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

15.2 Masculine and Feminine, Singular and Plural

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

15.3 Governing Law and Severability

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

15.4 Facility of Payment

If the Plan Administrator, in its sole discretion, determines that any Employee, Participant, Inactive Participant or Beneficiary by reason of infirmity, minority or other disability, is physically, mentally or legally incapable of giving a valid receipt for any payment due him or her or is incapable of handling his or her own affairs and if the

Plan Administrator is not aware of any legal representative appointed on his or her behalf, then the Plan Administrator, in its sole discretion, may direct (a) payment to or for the benefit of the Employee, Participant, Inactive Participant or Beneficiary; (b) payment to any person or institution maintaining custody of the Employee, Participant, Inactive Participant or Beneficiary; or (c) payment to any other person selected by the Plan Administrator to receive, manage and disburse such payment for the benefit of the Employee, Participant, Inactive Participant or Beneficiary. The receipt by any such person of any such payment shall be a complete acquittance therefor; and any such payment, to the extent thereof, shall discharge the liability of the Company, the Committee, and the Plan for any amounts owed to the Employee, Participant, Inactive Participant or Beneficiary hereunder. In the event of any controversy or uncertainty regarding who should receive or whom the Plan Administrator should select to receive any payment under this Plan, the Plan Administrator may seek instruction from a court of proper jurisdiction or may place the payment (or entire Account) into such court with final distribution to be determined by such court.

15.5 Correction of Errors

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

15.6 Missing Persons

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

15.7 Employee Acknowledgment

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

15.8 Outside Director Acknowledgment

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

IN WITNESS WHEREOF, each of the undersigned has executed this document on the date set forth adjacent to his or her signature below.

CALLAWAY GOLF COMPANY
A California Corporation

Dated: 2/19/98

By: /s/ Donald H. Dye

Donald H. Dye
President and Chief Executive Office

EMPLOYEE

Dated: _____

Employee's Signature

Employee's Printed Name

REVOLVING LOAN AGREEMENT

Dated as of February 4, 1998

among

CALLAWAY GOLF COMPANY

THE LENDERS HEREIN NAMED

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent

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REVOLVING LOAN AGREEMENT

Dated as of February 4, 1998

This REVOLVING LOAN AGREEMENT ("Agreement") is entered into by and among Callaway Golf Company, a California corporation ("Borrower"), each lender whose name is set forth on the signature pages of this Agreement and each lender which may hereafter become a party to this Agreement pursuant to Section 11.8

(collectively, the "Lenders" and individually, a "Lender"), and Wells Fargo Bank, National Association, as Administrative Agent.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

Article 1
DEFINITIONS AND ACCOUNTING TERMS

1.1 Defined Terms. As used in this Agreement, the following terms shall have the meanings set forth below:

"Acquisition" means any transaction, or any series of related transactions, consummated after the Closing Date, by which Borrower and/or any of its Subsidiaries directly or indirectly (a) acquires any ongoing business or all or substantially all of the assets of any Person engaged in any ongoing business, whether through purchase of assets, merger or otherwise, (b) acquires control of securities of a Person engaged in an ongoing business representing more than 50% of the ordinary voting power for the election of directors or other governing position if the business affairs of such Person are managed by a board of directors or other governing body or (c) acquires control of more than 50% of the ownership interest in any partnership, joint venture, limited liability company, business trust or other Person engaged in an ongoing business that is not managed by a board of directors or other governing body.

"Adjusted Current Ratio" means, as of any date of determination, the ratio of (a) the consolidated current assets of Borrower and its Subsidiaries on that date to (b) the sum of (i) the consolidated current liabilities of Borrower and its Subsidiaries on that date plus (ii) to the extent not included under clause (i), the aggregate Indebtedness evidenced by the Notes on that date plus (iii) the

Aggregate Effective Amount of all Letters of Credit outstanding on that date, in each case as determined in accordance with GAAP, consistently applied.

"Administrative Agent" means Wells Fargo Bank, National Association,

when acting in its capacity as the Administrative Agent under any of the Loan Documents, or any successor Administrative Agent.

"Administrative Agent's Office" means the Administrative Agent's

address as set forth on the signature pages of this Agreement, or such other address as the Administrative Agent hereafter may designate by written notice to Borrower and the Lenders.

"Advance" means any advance made or to be made by any Lender to

Borrower as provided in Article 2, and includes each Alternate Base Rate

Advance, Eurodollar Rate Advance and Foreign Currency Advance.

"Affiliate" means, as to any Person, any other Person which directly

or indirectly controls, or is under common control with, or is controlled by, such Person. As used in this definition, "control" (and the correlative terms, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise); provided that, in any event, any Person that owns, directly or

indirectly, 10% or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation that has more than 100 record holders of such securities, or 10% or more of the partnership or other ownership interests of any other Person that has more than 100 record holders of such interests, will be deemed to be an Affiliate of such corporation, partnership or other Person.

"Aggregate Effective Amount" means as of any date of determination and

with respect to all Letters of Credit then outstanding, the sum of (a) the

aggregate effective face amounts of all such Letters of Credit not then paid by the Issuing Lender plus (b) the aggregate amounts paid by the

Issuing Lender under such Letters of Credit not then reimbursed to the Issuing Lender by Borrower pursuant to Section 2.4(d) and not the subject

of Advances made pursuant to Section 2.4(e).

"Agreement" means this Revolving Loan Agreement, either as originally

executed or as it may from time to time be supplemented, modified, amended, restated or extended.

"Alternate Base Rate" means, as of any date of determination, the rate

 per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to
 the higher of (a) the Prime Rate in effect on such date or (b) the Federal

 Funds Rate in effect on such date plus 1/2 of 1% (50 basis points).

"Alternate Base Rate Advance" means an Advance made hereunder and

 specified to be an Alternate Base Rate Advance in accordance with Article

 2.
 -

"Alternate Base Rate Loan" means a Loan made hereunder and specified

 to be an Alternate Base Rate Loan in accordance with Article 2.

"Applicable Commitment Fee Rate" means, for each Pricing Period, the

 rate set forth below (expressed in basis points per annum) opposite the
 Applicable Pricing Level for that Pricing Period:

Applicable Pricing Level	Commitment
-----	-----
I	7.50
II	10.50
III	12.50
IV	15.00
V	17.50

"Applicable Eurodollar Rate Margin" means, for each Pricing Period,

 the interest rate margin set forth below (expressed in basis points per
 annum) opposite the Applicable Pricing Level for that Pricing Period:

Applicable Pricing Level	Margin
-----	-----
I	16.5
II	22.0
III	27.5
IV	37.5
V	47.5

"Applicable Pricing Level" means (a) for the Pricing Period commencing

 on the Closing Date and ending on February 15, 1998, Pricing Level I and
 (b) for each subsequent Pricing Period, the pricing level set forth below

opposite the Funded Debt Ratio as of the last day of the Fiscal Quarter most recently ended prior to the commencement of that Pricing Period:

Pricing Level	Funded Debt Ratio
I	Less than or equal to .50 to 1.00
II	Greater than .50 to 1.00, but less than or equal to .75 to 1.00
III	Greater than .75 to 1.00, but less than or equal to 1.00 to 1.00
IV	Greater than 1.00 to 1.00, but less than or equal to 2.00 to 1.00
V	Greater than 2.00 to 1.00;

provided that (i) in the event that Borrower does not deliver a Pricing

Certificate with respect to any Pricing Period prior to the commencement of such Pricing Period, then until (but only until) such Pricing Certificate is delivered the Applicable Pricing Level for that Pricing Period shall be Pricing Level V and (ii) if any Pricing Certificate is subsequently determined to be in error, then any resulting change in the Applicable Pricing Level shall be made retroactively to the beginning of the relevant Pricing Period.

"Applicable Standby Letter of Credit Fee Rate" means, as of any date of determination, the then effective Applicable Eurodollar Rate Margin.

"Arranger" means Wells Fargo Bank, National Association.

"Banking Day" means any Monday, Tuesday, Wednesday, Thursday or Friday, other than a day on which banks are authorized or required to be closed in California or New York.

"Capital Expenditure" means any expenditure by Borrower or any of its Subsidiaries for or related to fixed assets or purchased intangibles that is treated as a capital expenditure under GAAP, including any amount which is required to be treated as an asset subject to a Capital Lease Obligation. The amount of Capital Expenditures in respect of fixed assets purchased or constructed by Borrower or any of its Subsidiaries in any fiscal period shall be net of (a) any net sales proceeds received during such fiscal period by Borrower or such Subsidiary for fixed assets sold by Borrower or such Subsidiary and (b) any

casualty insurance proceeds received during such fiscal period by Borrower or such Subsidiary for casualties to fixed assets.

"Capital Lease Obligations" means all monetary obligations of a Person

under any leasing or similar arrangement which, in accordance with GAAP, is classified as a capital lease.

"Cash" means, when used in connection with any Person, all monetary

and non-monetary items owned by that Person that are treated as cash in accordance with GAAP, consistently applied.

"Cash Equivalents" means, when used in connection with any Person,

that Person's Investments in:

(a) Government Securities due within one year after the date of the making of the Investment;

(b) readily marketable direct obligations of any State of the United States of America or any political subdivision of any such State or any public agency or instrumentality thereof given on the date of such Investment a credit rating of at least Aa by Moody's Investors Service, Inc. or AA by Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.), in each case due within one year from the making of the Investment;

(c) certificates of deposit issued by, bank deposits in, eurodollar deposits through, bankers' acceptances of, and repurchase agreements covering Government Securities executed by any Lender or any bank incorporated under the Laws of the United States of America, any State thereof or the District of Columbia and having on the date of such Investment combined capital, surplus and undivided profits of at least \$250,000,000, or total assets of at least \$5,000,000,000, in each case due within one year after the date of the making of the Investment;

(d) certificates of deposit issued by, bank deposits in, eurodollar deposits through, bankers' acceptances of, and repurchase agreements covering Government Securities executed by any Lender or any branch or office located in the United States of America of a bank incorporated under the Laws of any jurisdiction outside the United States of America having on the date of such Investment combined capital, surplus and undivided profits of at least \$500,000,000, or total assets of

at least \$15,000,000,000, in each case due within one year after the date of the making of the Investment;

(e) repurchase agreements covering Government Securities executed by a broker or dealer registered under Section 15(b) of the Securities Exchange Act of 1934, as amended, having on the date of the Investment capital of at least \$50,000,000, due within 90 days after the date of the making of the Investment; provided that the maker of the

Investment receives written confirmation of the transfer to it of record ownership of the Government Securities on the books of a "primary dealer" in such Government Securities or on the books of such registered broker or dealer, as soon as practicable after the making of the Investment;

(f) readily marketable commercial paper or other debt securities issued by corporations doing business in and incorporated under the Laws of the United States of America or any State thereof or of any corporation that is the holding company for a bank described in clause (c) or (d) above given on the date of such Investment a credit rating

of at least P-1 by Moody's Investors Service, Inc. or A-1 by Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.), in each case due within one year after the date of the making of the Investment;

(g) "money market preferred stock" issued by a corporation incorporated under the Laws of the United States of America or any State thereof (i) given on the date of such Investment a credit rating of at least Aa by Moody's Investors Service, Inc. and AA by Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.), in each case having an investment period not exceeding 50 days or (ii) to the extent that investors therein have the benefit of a standby letter of credit issued by a Lender or a bank described in clauses (c) or (d)

above; provided that (y) the amount of all such Investments issued by

the same issuer does not exceed \$5,000,000 and (z) the aggregate amount of all such Investments does not exceed \$15,000,000;

(h) a readily redeemable "money market mutual fund" sponsored by a bank described in clause (c) or (d) hereof, or a registered broker

or dealer described in clause (e) hereof, that has and maintains an investment policy limiting its investments primarily to instruments of the types described in clauses (a) through (g) hereof and given on the date of

such Investment a credit rating of at least Aa by Moody's Investors Service, Inc. and AA by Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.); and

(i) corporate notes or bonds having an original term to maturity of not more than one year issued by a corporation incorporated under the Laws of the United States of America, or a participation interest therein; provided that (i) commercial paper issued by such corporation

is given on the date of such Investment a credit rating of at least Aa by Moody's Investors Service, Inc. and AA by Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.), (ii) the amount of all such Investments issued by the same issuer does not exceed \$5,000,000 and (iii) the aggregate amount of all such Investments does not exceed \$15,000,000.

"Certificate" means a certificate signed by a Senior Officer or

Responsible Official (as applicable) of the Person providing the certificate.

"Change in Control" means (a) any transaction or series of related

transactions in which any Unrelated Person or two or more Unrelated Persons acting in concert acquire beneficial ownership (within the meaning of Rule 13d-3(a)(1) under the Securities Exchange Act of 1934, as amended), directly or indirectly, of 25% or more of the outstanding Common Stock, (b) Borrower consolidates with or merges into another Person or conveys, transfers or leases its properties and assets substantially as an entirety to any Person or any Person consolidates with or merges into Borrower, in either event pursuant to a transaction in which the outstanding Common Stock is changed into or exchanged for cash, securities or other property, with the effect that any Unrelated Person becomes the beneficial owner, directly or indirectly, of 25% or more of Common Stock or that the Persons who were the holders of Common Stock immediately prior to the transaction hold less than 75% of the common stock of the surviving corporation after the transaction, (c) during any period of 24 consecutive months, individuals who at the beginning of such period constituted the board of directors of Borrower (together with any new or replacement directors whose election by the board of directors, or whose nomination for election, was approved by a vote of at least a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for reelection was previously so approved) cease for any reason to constitute a majority of the directors then in office or (d) a "change in control" as defined in any document governing Indebtedness of Borrower in excess of \$5,000,000 which gives the holders of

such Indebtedness the right to accelerate or otherwise require payment of such Indebtedness prior to the maturity date thereof. For purposes of the foregoing, the term "Unrelated Person" means any Person other than (i) a

Subsidiary of Borrower and (ii) an employee stock ownership plan or other employee benefit plan covering the employees of Borrower and its Subsidiaries.

"Closing Date" means the time and Banking Day on which the conditions

set forth in Section 8.1 are satisfied or waived. The Administrative Agent

shall notify Borrower and the Lenders of the date that is the Closing Date.

"Code" means the Internal Revenue Code of 1986, as amended or replaced

and as in effect from time to time.

"Commercial Letter of Credit" means each Letter of Credit issued to

support the purchase of goods by Borrower which is determined to be a commercial letter of credit by the Issuing Lender.

"Commitments" means the Line A Commitment and the Line B Commitment.

"Commitments Assignment and Acceptance" means a commitment assignment

and acceptance substantially in the form of Exhibit A.

"Common Stock" means the common stock of Borrower or its successor.

"Compliance Certificate" means a certificate in the form of Exhibit B,

properly completed and signed by a Senior Officer of Borrower.

"Contractual Obligation" means, as to any Person, any provision of any

outstanding security issued by that Person or of any material agreement, instrument or undertaking to which that Person is a party or by which it or any of its Property is bound.

"Debtor Relief Laws" means the Bankruptcy Code of the United States of

America, as amended from time to time, and all other applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws from time to time in effect affecting the rights of creditors generally.

"Default" means any event that, with the giving of any applicable

notice or passage of time specified in Section 9.1, or both, would be an

Event of Default.

"Default Rate" means the interest rate prescribed in Section 3.9.

"Designated Deposit Account" means a deposit account to be maintained

by Borrower with Wells Fargo Bank, National Association or one of its
Affiliates, as from time to time designated by Borrower by written
notification to the Administrative Agent.

"Designated Eurodollar Market" means, with respect to any Eurodollar

Rate Loan, the London Eurodollar Market.

"Designated Foreign Currency Market" means, with respect to any

Foreign Currency Loan, the Foreign Currency Market designated by the
Administrative Agent as appropriate for that Foreign Currency Loan.

"Disqualified Stock" means any capital stock, warrants, options or

other rights to acquire capital stock (but excluding any debt security
which is convertible, or exchangeable, for capital stock), which, by its
terms (or by the terms of any security into which it is convertible or for
which it is exchangeable), or upon the happening of any event, matures or
is mandatorily redeemable, pursuant to a sinking fund obligation or
otherwise, or is redeemable at the option of the holder thereof, in whole
or in part, on or prior to the Maturity Date.

"Disposition" means the sale, transfer or other disposition in any

single transaction or series of related transactions of any asset, or group
of related assets, of Borrower or any of its Subsidiaries (a) which asset
or assets constitute a line of business or substantially all the assets of
Borrower or the Subsidiary or (b) the aggregate amount of the Net Cash
Sales Proceeds of such assets of which is more than \$1,000,000, other than

(i) inventory or Cash Equivalents sold or otherwise disposed of in the
ordinary course of business of Borrower or its Subsidiary and (ii)
equipment sold or otherwise disposed of where substantially similar
equipment in replacement thereof has theretofore been acquired, or
thereafter within 90 days is acquired, by Borrower or its Subsidiary.

"Distribution" means, with respect to any shares of capital stock or

any warrant or option to purchase an equity security or other equity
security issued

by a Person, (a) the retirement, redemption, purchase or other acquisition for Cash or for Property by such Person of any such security, (b) the declaration or (without duplication) payment by such Person of any dividend in Cash or in Property on or with respect to any such security, (c) any Investment by such Person in the holder of 5% or more of any such security if a purpose of such Investment is to avoid characterization of the transaction as a Distribution and (d) any other payment in Cash or Property by such Person constituting a distribution under applicable Laws with respect to such security.

"Dollars" or "\$" means United States of America dollars.

"Domestic Subsidiary" means a Subsidiary of Borrower that is not a Foreign Subsidiary.

"EBITDA" means, with respect to any fiscal period, the sum of (a) Net Income for that period, plus (b) any non-operating non-recurring loss reflected in such Net Income, minus (c) any non-operating non-recurring gain reflected in such Net Income, plus (d) Interest Expense of Borrower and its Subsidiaries for that period, plus (e) the aggregate amount of federal and state taxes on or measured by income of Borrower and its Subsidiaries for that period (whether or not payable during that period), plus (f) depreciation, amortization and all other non-cash expenses of Borrower and its Subsidiaries for that period, in each case as determined in accordance with GAAP, consistently applied.

"Eligible Assignee" means (a) another Lender, (b) with respect to any Lender, any Affiliate of that Lender, (c) any commercial bank having total assets of \$5,000,000,000 or more, (d) any (i) savings bank, savings and loan association or similar financial institution or (ii) insurance company engaged in the business of writing insurance which, in either case (A) has total assets of \$5,000,000,000 or more, (B) is engaged in the business of lending money and extending credit under credit facilities substantially similar to those extended under this Agreement and (C) is operationally and procedurally able to meet the obligations of a Lender hereunder to the same degree as a commercial bank and (e) any other financial institution (including a mutual fund or other fund) having total assets of

\$5,000,000,000 or more which meets the requirements set forth in subclauses (B) and (C) of clause (d) above; provided that each Eligible Assignee must

either (aa) be organized under the Laws of the United States of America, any State thereof or the District of Columbia or (bb) be organized under the Laws of the Cayman Islands or any country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of such a country, and (i) act hereunder through a branch, agency or

funding office located in the United States of America and (ii) be exempt from withholding of tax on interest and deliver the documents related thereto pursuant to Section 11.21.

"ERISA" means the Employee Retirement Income Security Act of 1974, and any regulations issued pursuant thereto, as amended or replaced and as in effect from time to time.

"ERISA Affiliate" means each Person (whether or not incorporated) which is required to be aggregated with Borrower pursuant to Section 414 of the Code.

"Eurodollar Banking Day" means any Banking Day on which dealings in Dollar deposits are conducted by and among banks in the Designated Eurodollar Market.

"Eurodollar Lending Office" means, as to each Lender, its office or branch so designated by written notice to Borrower and the Administrative Agent as its Eurodollar Lending Office. If no Eurodollar Lending Office is designated by a Lender, its Eurodollar Lending Office shall be its office at its address for purposes of notices hereunder.

"Eurodollar Market" means a regular established market located outside the United States of America by and among banks for the solicitation, offer and acceptance of Dollar deposits in such banks.

"Eurodollar Obligations" means eurocurrency liabilities, as defined in Regulation D or any comparable regulation of any Governmental Agency having jurisdiction over any Lender.

"Eurodollar Period" means, as to each Eurodollar Rate Loan, the period commencing on the date specified by Borrower pursuant to Section 2.1(d) and ending 1, 2, 3 or 6 months (or, with the written consent of all of the Lenders, any other period) thereafter, as specified by Borrower in the applicable Request for Loan; provided that:

(a) The first day of any Eurodollar Period shall be a Eurodollar Banking Day;

(b) Any Eurodollar Period that would otherwise end on a day that is not a Eurodollar Banking Day shall be extended to the

immediately succeeding Eurodollar Banking Day unless such Eurodollar Banking Day falls in another calendar month, in which case such Eurodollar Period shall end on the immediately preceding Eurodollar Banking Day; and

(c) No Eurodollar Period with respect to a Line A Loan shall extend beyond the Line A Maturity Date and no Eurodollar Period with respect to a Line B Loan shall extend beyond the Line B Maturity Date.

"Eurodollar Rate" means, with respect to any Eurodollar Rate Loan, the

average of the interest rates per annum (rounded upward, if necessary, to the next 1/16 of 1%) at which deposits in Dollars are offered to the Administrative Agent in the Designated Eurodollar Market at or about 11:00 a.m. local time in the Designated Eurodollar Market, two (2) Eurodollar Banking Days before the first day of the applicable Eurodollar Period in an aggregate amount approximately equal to the amount of the Advance to be made by the Administrative Agent with respect to such Eurodollar Rate Loan and for a period of time comparable to the number of days in the applicable Eurodollar Period.

"Eurodollar Rate Advance" means an Advance made hereunder and

specified to be a Eurodollar Rate Advance in accordance with Article 2.

"Eurodollar Rate Loan" means a Loan made hereunder and specified to be

a Eurodollar Rate Loan in accordance with Article 2.

"Existing Letters of Credit" means the letters of credit outstanding

on the Closing Date listed on Schedule 2.4.

"Event of Default" shall have the meaning provided in Section 9.1.

"Federal Funds Rate" means, as of any date of determination, the rate

set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Federal Reserve Board (including any such successor, "H.15(519)") for such date opposite the caption "Federal Funds (Effective)". If for any relevant date such rate is not yet published in H.15(519), the rate for such date will be the rate set forth in the daily statistical release designated as the Composite 3:30 p.m. Quotations for U.S. Government Securities, or any successor publication, published by the Federal Reserve Bank of New York (including any such successor, the "Composite 3:30 p.m. Quotation") for such date under the caption "Federal Funds Effective Rate". If

on any relevant date the appropriate rate for such date is not yet published in either H.15(519) or the Composite 3:30 p.m. Quotations, the rate for such date will be the arithmetic mean of the rates for the last transaction in overnight Federal funds arranged prior to 9:00 a.m. (New York City time) on that date by each of three leading brokers of Federal funds transactions in New York City selected by the Administrative Agent. For purposes of this Agreement, any change in the Alternate Base Rate due to a change in the Federal Funds Rate shall be effective as of the opening of business on the effective date of such change.

"Fiscal Quarter" means the fiscal quarter of Borrower ending on each

March 31, June 30, September 30 and December 31.

"Fiscal Year" means the fiscal year of Borrower ending on each

December 31.

"Fixed Charge Coverage Ratio" means, as of the last day of any Fiscal

Quarter, the ratio of (a) EBITDA for the fiscal period consisting of the

four (4) Fiscal Quarters ended on that date minus Capital Expenditures made

by Borrower and its Subsidiaries during such fiscal period to (b) the sum

of (i) Interest Expense of Borrower and its Subsidiaries for such fiscal
--
period plus (ii) the current portion of long-term debt of Borrower and its

Subsidiaries on such date.

"Foreign Currency" means, with respect to a Foreign Currency Loan or

Foreign Currency Letter of Credit, the foreign currency applicable to that
Foreign Currency Loan or Foreign Currency Letter of Credit.

"Foreign Currency Banking Day" means any Banking Day on which dealings

in deposits in the applicable Foreign Currency are conducted by and among
banks in the Designated Foreign Currency Market.

"Foreign Currency Equivalent" means, as of any date of determination,

the equivalent amount in Dollars of a Foreign Currency Loan or a Foreign
Currency Letter of Credit, as the case may be, using the currency exchange
rate for such date for the applicable Foreign Currency in the New York City
wholesale foreign currency exchange market in trading among banks in
amounts of \$1,000,000 or more, as reported in the Wall Street Journal, or,

if not so reported for such date, as otherwise reasonably determined by the
Administrative Agent.

"Foreign Currency Letter of Credit" means a Letter of Credit issued or

to be issued in (a) Japanese Yen or (b) such other currency (other than

Dollars) as may be acceptable to all of the Lenders in their sole and
absolute discretion.

"Foreign Currency Loan" means a Loan made or to be made in (a)

Japanese Yen or (b) such other currency (other than Dollars) as may be

acceptable to all of the Lenders in their sole and absolute discretion.

"Foreign Currency Market" means a regular established market located

outside the United States of America by and among banks for the
solicitation, offer and acceptance of Foreign Currency deposits in such
banks.

"Foreign Currency Period" means, as to each Foreign Currency Loan, the

period commencing on the date specified by Borrower pursuant to Section
2.1(d) and ending 1, 2, 3, 6 or 12 months (or, with the written consent of

all of the Lenders, any other period) thereafter, as specified by Borrower
in the applicable Request for Loan; provided that:

(a) The first day of any Foreign Currency Period shall be a
Foreign Currency Banking Day;

(b) Any Foreign Currency Period that would otherwise end on a day
that is not a Foreign Currency Banking Day shall be extended to the
immediately succeeding Foreign Currency Banking Day unless such Foreign
Currency Banking Day falls in another calendar month, in which case such
Foreign Currency Period shall end on the immediately preceding Foreign
Currency Banking Day;

(c) No Foreign Currency Period shall extend beyond the Line A
Maturity Date.

"Foreign Currency Rate" means, with respect to any Foreign Currency

Rate Loan, the average of the interest rates per annum (rounded upward, if
necessary, to the next 1/16 of 1%) at which deposits in that Foreign
Currency are offered to the Administrative Agent in the Designated Foreign
Currency Market, two (2) Foreign Currency Banking Days before the first day
of the applicable Foreign Currency Period in an aggregate amount
approximately equal to the amount of the Advance to be made by the
Administrative Agent with respect to such Foreign Currency Rate Loan and
for a period of time comparable to the number of days in the applicable
Foreign Currency Period.

"Foreign Subsidiary" means a Subsidiary of Borrower that (a) is

organized under the Laws of a jurisdiction other than the United States of

America, any State thereof or the District of Columbia and (b) conducts all
or substantially all of its business outside the United States of America.

"Funded Debt Ratio" means, as of the last day of any Fiscal Quarter,

the ratio of (a) the sum of (i) all Indebtedness of Borrower and its

Subsidiaries on that date other than Indebtedness evidenced by the Notes

plus (ii) the average daily balance of Indebtedness evidenced by the Notes

for such Fiscal Quarter (or, if such Fiscal Quarter commenced prior to the
Closing Date, for the period commencing on the Closing Date and ended on
the last day of such Fiscal Quarter) to (b) EBITDA for the fiscal period

consisting of the four (4) Fiscal Quarters ended on that date.

"GAAP" means, as of any date of determination, accounting principles

(a) set forth as generally accepted in then currently effective Opinions of
the Accounting Principles Board of the American Institute of Certified
Public Accountants, (b) set forth as generally accepted in then currently
effective Statements of the Financial Accounting Standards Board or (c)
that are then approved by such other entity as may be approved by a
significant segment of the accounting profession in the United States of
America. The term "consistently applied," as used in connection therewith,

means that the accounting principles applied are consistent in all material
respects with those applied at prior dates or for prior periods.

"Government Securities" means readily marketable (a) direct full faith

and credit obligations of the United States of America or obligations
guaranteed by the full faith and credit of the United States of America and
(b) obligations of an agency or instrumentality of, or corporation owned,
controlled or sponsored by, the United States of America that are generally
considered in the securities industry to be implicit obligations of the
United States of America.

"Governmental Agency" means (a) any international, foreign, federal,

state, county or municipal government, or political subdivision thereof,
(b) any governmental or quasi-governmental agency, authority, board,
bureau, central bank, commission, department, instrumentality or public
body or (c) any court or administrative tribunal of competent jurisdiction.

"Guaranty Obligation" means, as to any Person, any (a) guarantee by

that Person of Indebtedness of, or other obligation performable by, any
other Person or (b) assurance given by that Person to an obligee of any
other Person with

respect to the performance of an obligation by, or the financial condition of, such other Person, whether direct, indirect or contingent, including

any purchase or repurchase agreement covering such obligation or any collateral security therefor, any agreement to provide funds (by means of loans, capital contributions or otherwise) to such other Person, any agreement to support the solvency or level of any balance sheet item of such other Person or any "keep-well" or other arrangement of whatever nature given for the purpose of assuring or holding harmless such obligee against loss with respect to any obligation of such other Person; provided,

however, that the term Guaranty Obligation shall not include endorsements

of instruments for deposit or collection in the ordinary course of business. The amount of any Guaranty Obligation in respect of Indebtedness shall be deemed to be an amount equal to the stated or determinable amount of the related Indebtedness (unless the Guaranty Obligation is limited by its terms to a lesser amount, in which case to the extent of such amount) or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the Person in good faith. The amount of any other Guaranty Obligation shall be deemed to be zero unless and until the amount thereof has been (or in accordance with Financial Accounting Standards Board Statement No. 5 should be) quantified and reflected or disclosed in the consolidated financial statements (or notes thereto) of Borrower.

"Hazardous Materials" means substances defined as "hazardous

substances" pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. (S) 9601 et seq., or as "hazardous", "toxic" or "pollutant" substances or as "solid waste" pursuant to the Hazardous Materials Transportation Act, 49 U.S.C. (S) 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. (S) 6901, et seq., or as "friable asbestos" pursuant to the Toxic Substances Control Act, 15 U.S.C. (S) 2601 et seq. or any other applicable Hazardous Materials Law, in each case as such Laws are amended from time to time.

"Hazardous Materials Laws" means all Laws governing the treatment,

transportation or disposal of Hazardous Materials applicable to any of the Real Property.

"Headquarters Transaction" means the sale or other disposition of all

or any portion of the real Property (including leasehold interests in real

Property) located in Carlsbad, California and occupied by Borrower as of the Closing Date, and/or the leaseback thereof by Borrower.

"Indebtedness" means, as to any Person (without duplication), (a) -----
indebtedness of such Person for borrowed money or for the deferred purchase
price of Property (excluding trade and other accounts payable in the

ordinary course of business in accordance with ordinary trade terms),
including any Guaranty Obligation for any such indebtedness, (b)

indebtedness of such Person of the nature described in clause (a) that is

non-recourse to the credit of such Person but is secured by assets of such
Person, to the extent of the fair market value of such assets as determined
in good faith by such Person, (c) Capital Lease Obligations of such Person,
(d) indebtedness of such Person arising under bankers' acceptance
facilities or under facilities for the discount of accounts receivable of
such Person, (e) any direct or contingent obligations of such Person under
letters of credit issued for the account of such Person and (f) any net
obligations of such Person under Interest Rate Protection Agreements.

"Intangible Assets" means assets that are considered intangible assets

under GAAP, including customer lists, goodwill, covenants not to compete,

copyrights, trade names, trademarks and patents.

"Interest Expense" means, with respect to any Person and as of the

last day of any fiscal period, the sum of (a) all interest, fees, charges

and related expenses paid or payable (without duplication) for that fiscal
period by that Person to a lender in connection with borrowed money
(including any obligations for fees, charges and related expenses payable

to the issuer of any letter of credit) or the deferred purchase price of
assets that are considered "interest expense" under GAAP plus (b) the

portion of rent paid or payable (without duplication) for that fiscal
period by that Person under Capital Lease Obligations that should be
treated as interest in accordance with Financial Accounting Standards Board
Statement No. 13.

"Interest Rate Protection Agreement" means a written agreement between

Borrower and one or more financial institutions providing for "swap",
"cap", "collar" or other interest rate protection with respect to any
Indebtedness.

"Investment" means, when used in connection with any Person, any

investment by or of that Person, whether by means of purchase or other
acquisition of stock or other securities of any other Person or by means of
a loan, advance creating a debt, capital contribution, guaranty or other
debt or equity participation or interest in any other Person, including any

partnership and joint venture interests of such Person. The amount of any
Investment shall be the amount actually invested (minus any return of

capital with respect to

such Investment which has actually been received in Cash or has been converted into Cash or a Cash Equivalent), without adjustment for subsequent increases or decreases in the value of such Investment.

"Issuing Lender" means Wells Fargo Bank, National Association.

"Laws" means, collectively, all international, foreign, federal, state and local statutes, treaties, rules, regulations, ordinances, codes and administrative or judicial precedents.

"Lender" means each lender whose name is set forth in the signature pages of this Agreement and each lender which may hereafter become a party to this Agreement pursuant to Section 11.8.

"Letters of Credit" means (a) the Existing Letters of Credit and (b) any of the Commercial Letters of Credit or Standby Letters of Credit issued by the Issuing Lender under the Line A Commitment pursuant to Section 2.4, either as originally issued or as the same may be supplemented, modified, amended, renewed, extended or supplanted.

"Lien" means any mortgage, deed of trust, pledge, hypothecation, assignment for security, security interest, encumbrance, lien or charge of any kind, whether voluntarily incurred or arising by operation of Law or otherwise, affecting any Property, including any conditional sale or other title retention agreement, any lease in the nature of a security interest, and/or the filing of any financing statement (other than a precautionary financing statement with respect to a lease that is not in the nature of a security interest) under the Uniform Commercial Code or comparable Law of any jurisdiction with respect to any Property.

"Line A Commitment" means, subject to Sections 2.5 and 2.6, \$100,000,000. The respective Pro Rata Shares of the Lenders with respect to the Line A Commitment are set forth in Schedule 1.1.

"Line A Maturity Date" means the earlier of (a) the date that is five (5) years after the Closing Date or (b) January 31, 2003.

"Line A Note" means any of the promissory notes made by Borrower to a Lender evidencing Advances under that Lender's Pro Rata Share of the Line A Commitment, substantially in the form of Exhibit C, either as originally

executed or as the same may from time to time be supplemented, modified, amended, renewed, extended or supplanted.

"Line A Loan" means any Loan made under the Line A Commitment.

"Line B Commitment" means, subject to Sections 2.5 and 2.6,

\$50,000,000. The respective Pro Rata Shares of the Lenders with respect to the Line B Commitment are set forth in Schedule 1.1.

"Line B Loan" means a Loan made under the Line B Commitment.

"Line B Maturity Date" means the date that is 364 days after the

Closing Date.

"Line B Note" means any of the promissory notes made by Borrower to a

Lender evidencing Advances under the Lender's Pro Rata Share of the Line B Commitment, substantially in the form of Exhibit D, either as originally

executed or as the same may from time to time be supplemented, modified, amended, renewed, extended or supplanted.

"Loan" means the aggregate of the Advances made at any one time by the

Lenders pursuant to Section 2.1.

"Loan Documents" means, collectively, this Agreement, the Notes, the

Subsidiary Guaranty and any other agreements of any type or nature hereafter executed and delivered by Borrower or any of its Subsidiaries to the Administrative Agent or to any Lender in any way relating to or in furtherance of this Agreement, in each case either as originally executed or as the same may from time to time be supplemented, modified, amended, restated, extended or supplanted.

"Margin Stock" means "margin stock" as such term is defined in

Regulation G or U.

"Material Adverse Effect" means any set of circumstances or events

which (a) has had or could reasonably be expected to have any material adverse effect whatsoever upon the validity or enforceability of any Loan Document, (b) has been or could reasonably be expected to be material and adverse to the business or condition (financial or otherwise) of Borrower and its Subsidiaries, taken as a whole or (c) has materially impaired or could reasonably be expected to materially impair the ability of Borrower to perform the Obligations.

"Monthly Payment Date" means the last day of each calendar month.

"Multiemployer Plan" means any employee benefit plan of the type

described in Section 4001(a)(3) of ERISA to which Borrower or any of its ERISA Affiliates contributes or is obligated to contribute.

"Negative Pledge" means a Contractual Obligation which contains a

covenant binding on Borrower or any of its Subsidiaries that prohibits Liens on any of its Property, other than (a) any such covenant contained in a Contractual Obligation granting or relating to a particular Lien which affects only the Property that is the subject of such Lien and (b) any such covenant that does not apply to Liens securing the Obligations.

"Net Cash Issuance Proceeds" means, with respect to the issuance of

any debt security or equity security by Borrower or any of its Subsidiaries, the Cash proceeds received by or for the account of Borrower or such Subsidiary in consideration of such issuance net of (a)

underwriting discounts and commissions actually paid to any Person not an Affiliate of Borrower and (b) professional fees and disbursements actually paid in connection therewith.

"Net Cash Sales Proceeds" means, with respect to any Disposition, the

sum of (a) the Cash proceeds received by or for the account of Borrower and its Subsidiaries from such Disposition plus (b) the amount of Cash received

by or for the account of Borrower and its Subsidiaries upon the sale, collection or other liquidation of any proceeds that are not Cash from such Disposition, in each case net of (i) any amount required to be paid to any

Person owning an interest in the assets disposed of, (ii) any amount applied to the repayment of Indebtedness secured by a Lien permitted under Section 6.9 on the asset disposed of, (iii) any transfer, income or other

taxes payable as a result of such Disposition, (iv) professional fees and expenses, fees due to any Governmental Agency, broker's commissions and other out-of-pocket costs of sale actually paid to any Person that is not an Affiliate of Borrower attributable to such Disposition and (v) any reserves established in accordance with GAAP in connection with such Disposition.

"Net Income" means, with respect to any fiscal period, the

consolidated net income of Borrower and its Subsidiaries for that period, determined in accordance with GAAP, consistently applied.

"Notes" means the Line A Notes and the Line B Notes.

"Obligations" means all present and future obligations of every kind

or nature of Borrower or any of its Subsidiaries at any time and from time
to time owed to the Administrative Agent or the Lenders or any one or more
of them, under any one or more of the Loan Documents, whether due or to
become due, matured or unmatured, liquidated or unliquidated, or contingent
or noncontingent, including obligations of performance as well as

obligations of payment, and including interest that accrues after the

commencement of any proceeding under any Debtor Relief Law by or against
Borrower or any of its Subsidiaries.

"Opinion of Counsel" means the favorable written legal opinion of

Steven C. McCracken, Esq., general counsel, or Ann McConlogue, Esq.,
corporate counsel, to Borrower and its Subsidiaries, substantially in the
form of Exhibit E, together with copies of all factual certificates and

legal opinions delivered to such counsel in connection with such opinion
upon which such counsel has relied.

"Party" means any Person other than the Administrative Agent and the

Lenders, which now or hereafter is a party to any of the Loan Documents.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor

thereof established under ERISA.

"Pension Plan" means any "employee pension benefit plan" (as such term

is defined in Section 3(2) of ERISA), other than a Multiemployer Plan,

which is subject to Title IV of ERISA and is maintained by Borrower or to
which Borrower contributes or has an obligation to contribute.

"Permitted Acquisition" means an Acquisition by Borrower or one of its

Subsidiaries of a Person engaged in the same or a closely-related line of
business as Borrower; provided that (a) no Default or Event of Default then

exists or would result therefrom and (b) giving effect thereto, the
aggregate purchase prices (whether in Cash, Property or capital stock of
Borrower) paid by Borrower and its Subsidiaries do not exceed (i)
\$25,000,000 for all Acquisitions made by Borrower and its Subsidiaries
during the preceding twelve (12) month period or (ii) \$100,000,000 during
the period commencing on the Closing Date and ending on the date of such
Acquisition.

"Permitted Encumbrances" means:

(a) Inchoate Liens incident to construction on or maintenance of Property; or Liens incident to construction on or maintenance of Property now or hereafter filed of record for which adequate reserves have been set aside (or deposits made pursuant to applicable Law) and which are being contested in good faith by appropriate proceedings and have not proceeded to judgment, provided that, by reason of nonpayment of the obligations

secured by such Liens, no such Property is subject to a material impending risk of loss or forfeiture;

(b) Liens for taxes and assessments on Property which are not yet past due; or Liens for taxes and assessments on Property for which adequate reserves have been set aside and are being contested in good faith by appropriate proceedings and have not proceeded to judgment, provided that,

by reason of nonpayment of the obligations secured by such Liens, no such Property is subject to a material impending risk of loss or forfeiture;

(c) defects and irregularities in title to any Property which in the aggregate do not materially impair the fair market value or use of the Property for the purposes for which it is or may reasonably be expected to be held;

(d) easements, exceptions, reservations, or other agreements for the purpose of pipelines, conduits, cables, wire communication lines, power lines and substations, streets, trails, walkways, drainage, irrigation, water, and sewerage purposes, dikes, canals, ditches, the removal of oil, gas, coal, or other minerals, and other like purposes affecting Property which in the aggregate do not materially burden or impair the fair market value or use of such Property for the purposes for which it is or may reasonably be expected to be held;

(e) easements, exceptions, reservations, or other agreements for the purpose of facilitating the joint or common use of Property in or adjacent to a shopping center or similar project affecting Property which in the aggregate do not materially burden or impair the fair market value or use of such Property for the purposes for which it is or may reasonably be expected to be held;

(f) rights reserved to or vested in any Governmental Agency to control or regulate, or obligations or duties to any Governmental Agency with respect to, the use of any Property;

(g) rights reserved to or vested in any Governmental Agency to control or regulate, or obligations or duties to any Governmental Agency with respect to, any right, power, franchise, grant, license, or permit;

(h) present or future zoning laws and ordinances or other laws and ordinances restricting the occupancy, use, or enjoyment of Property;

(i) statutory Liens, other than those described in clauses (a) or (b) above, arising in the ordinary course of business with respect to obligations which are not delinquent or are being contested in good faith, provided that, if delinquent, adequate reserves have been set aside with ----- respect thereto and, by reason of nonpayment, no Property is subject to a material impending risk of loss or forfeiture;

(j) covenants, conditions, and restrictions affecting the use of Property which in the aggregate do not materially impair the fair market value or use of the Property for the purposes for which it is or may reasonably be expected to be held;

(k) rights of tenants under leases and rental agreements covering Property entered into in the ordinary course of business of the Person owning such Property;

(l) Liens consisting of pledges or deposits to secure obligations under workers' compensation laws or similar legislation, including Liens of judgments thereunder which are not currently dischargeable;

(m) Liens consisting of pledges or deposits of Property to secure performance in connection with operating leases made in the ordinary course of business, provided the aggregate value of all such pledges and deposits ----- in connection with any such lease does not at any time exceed 20% of the annual fixed rentals payable under such lease;

(n) Liens consisting of deposits of Property to secure bids made with respect to, or performance of, contracts (other than contracts ----- creating or evidencing an extension of credit to the depositor);

(o) Liens consisting of any right of offset, or statutory bankers' lien, on bank deposit accounts maintained in the ordinary course of business so long as such bank deposit accounts are not established or maintained for the purpose of providing such right of offset or bankers' lien;

(p) Liens consisting of deposits of Property to secure statutory obligations of Borrower;

(q) Liens consisting of deposits of Property to secure (or in lieu of) surety, appeal or customs bonds;

(r) Liens created by or resulting from any litigation or legal proceeding in the ordinary course of business which is currently being contested in good faith by appropriate proceedings, provided that, adequate reserves have been set aside and no material Property is subject to a material impending risk of loss or forfeiture; and

(s) other non-consensual Liens incurred in the ordinary course of business but not in connection with the incurrence of any Indebtedness, which do not in the aggregate, when taken together with all other Liens, materially impair the fair market value or use of the Property for the purposes for which it is or may reasonably be expected to be held.

"Permitted Right of Others" means a Right of Others consisting of (a) an interest (other than a legal or equitable co-ownership interest, an option or right to acquire a legal or equitable co-ownership interest and any interest of a ground lessor under a ground lease), that does not materially impair the fair market value or use of Property for the purposes for which it is or may reasonably be expected to be held, (b) an option or right to acquire a Lien that would be a Permitted Encumbrance, (c) the subordination of a lease or sublease in favor of a financing entity and (d) a license, or similar right, of or to Intangible Assets granted in the ordinary course of business.

"Person" means any individual or entity, including a trustee, corporation, limited liability company, general partnership, limited partnership, joint stock company, trust, estate, unincorporated organization, business association, firm, joint venture, Governmental Agency, or other entity.

"Pricing Certificate" means a certificate in the form of Exhibit F, properly completed and signed by a Senior Officer of Borrower.

"Pricing Period" means (a) the period commencing on the Closing Date and ending on February 15, 1998, (b) the period commencing on February 16, 1998, and each subsequent February 16, and ending on the next following May 15, (c) the period commencing on each subsequent May 16 and ending on

the next following August 15, (d) the period commencing on each subsequent August 16 and ending on the next following November 15 and (e) the period commencing on each subsequent November 16 and ending on the next following February 15.

"Prime Rate" means the rate of interest announced from time to time by

the Administrative Agent in San Francisco, California (or other headquarters city of the Administrative Agent), as its "prime rate." The "prime rate" is one of several base rates used by the Administrative Agent and serves as the basis upon which effective rates of interest are calculated for loans and other credits making reference thereto. The "prime rate" is evidenced by the recording thereof after its announcement in such internal publication or publications as the Administrative Agent may designate. Any change in the Prime Rate shall take effect at the opening of business on the day such change is internally announced within the offices of the Administrative Agent.

"Prior Loan Agreement" means that certain Loan Agreement dated as of

December 1, 1994 (as heretofore amended) between Wells Fargo Bank, National Association (successor by merger to First Interstate Bank of California) and Borrower.

"Projections" means the projected financial information dated January

9, 1998 prepared by Borrower and contained in the Confidential Offering Memorandum dated January, 1998 furnished to the Lenders.

"Property" means any interest in any kind of property or asset,

whether real, personal or mixed, or tangible or intangible.

"Pro Rata Share" means, with respect to each Lender, the percentage of

the Commitments set forth opposite the name of that Lender on Schedule 1.1,

as such percentage may be increased or decreased pursuant to a Commitments Assignment and Acceptance executed in accordance with Section 11.8.

"Quarterly Payment Date" means each December 31, March 31, June 30 and

September 30.

"Real Property" means, as of any date of determination, all real

property then or theretofore owned, leased or occupied by Borrower.

"Regulation D" means Regulation D, as at any time amended, of the

Board of Governors of the Federal Reserve System, or any other regulation
in substance substituted therefor.

"Regulations G and U" means Regulations G and U, as at any time

amended, of the Board of Governors of the Federal Reserve System, or any
other regulations in substance substituted therefor.

"Request for Letter of Credit" means a written request for a Letter of

Credit substantially in the form of Exhibit G, signed by a Responsible

Official of Borrower and properly completed to provide all information
required to be included therein.

"Request for Loan" means a written request for a Loan substantially in

the form of Exhibit H, signed by a Responsible Official of Borrower, on

behalf of Borrower, and properly completed to provide all information
required to be included therein.

"Requirement of Law" means, as to any Person, the articles or

certificate of incorporation and by-laws or other organizational or
governing documents of such Person, and any Law, or judgment, award,
decree, writ or determination of a Governmental Agency, in each case
applicable to or binding upon such Person or any of its Property or to
which such Person or any of its Property is subject.

"Requisite Lenders" means (a) as of any date of determination if the

Commitments are then in effect, Lenders having in the aggregate 50.1% or
more of the Commitments then in effect and (b) as of any date of
determination if the Commitments have then been suspended or terminated and
there is then any Indebtedness evidenced by the Notes, Lenders holding
Notes evidencing in the aggregate 50.1% or more of the aggregate
Indebtedness then evidenced by the Notes.

"Responsible Official" means (a) any Senior Officer of Borrower and

(b) any other responsible official of Borrower so designated in a written
notice thereof from a Senior Officer to the Administrative Agent. The
Lenders shall be entitled to conclusively rely upon any document or
certificate that is signed or executed by a Responsible Official of
Borrower or any of its Subsidiaries as having been authorized by all
necessary corporate, partnership and/or other action on the part of
Borrower or such Subsidiary.

"Right of Others" means, as to any Property in which a Person has an

interest, any legal or equitable right, title or other interest (other than
a Lien) held by any other Person in that Property, and any option or right
held by any other Person to acquire any such right, title or other interest
in that Property, including any option or right to acquire a Lien;

provided, however, that (a) no covenant restricting the use or disposition

of Property of such Person contained in any Contractual Obligation of such
Person and (b) no provision contained in a contract creating a right of
payment or performance in favor of a Person that conditions, limits,
restricts, diminishes, transfers or terminates such right shall be deemed
to constitute a Right of Others.

"Seller Subordinated Notes" means promissory notes of Borrower payable

to the sellers of a business issued in connection with a Permitted
Acquisition that meet the requirements of subclauses (ii) through (vi) of

clause (b) of the definition of Subordinated Obligations.

"Senior Officer" means (a) the chief executive officer, (b) the

president, (c) any executive vice president, (d) the chief financial
officer, (e) the treasurer, or (f) the controller, in each case of
Borrower.

"Significant Subsidiary" means, as of any date of determination, a

Subsidiary of Borrower that (a) has total assets of \$5,000,000 (or the
Foreign Currency Equivalent thereof) or more or (b) during the most
recently ended Fiscal Year had total revenues of \$5,000,000 (or the Foreign
Currency Equivalent thereof) or more.

"Special Eurodollar Circumstance" means the application or adoption

after the Closing Date of any Law or interpretation, or any change therein
or thereof, or any change in the interpretation or administration thereof
by any Governmental Agency, central bank or comparable authority charged
with the interpretation or administration thereof, or compliance by any
Lender or its Eurodollar Lending Office with any request or directive
(whether or not having the force of Law) of any such Governmental Agency,
central bank or comparable authority.

"Standby Letter of Credit" means each Letter of Credit that is not a

Commercial Letter of Credit.

"Stock Repurchase" means the repurchase, redemption or other

acquisition by Borrower of outstanding shares of Common Stock.

"Stock Repurchase Adjustment" means, as of any date of determination,

with respect to all Stock Repurchases made during the period commencing on October 1, 1997 and ending on such date, an amount equal to the aggregate purchase prices paid for such Stock Repurchases, but not in excess of \$75,000,000. The foregoing definition assumes that, pursuant to GAAP, any subsequent contribution of Common Stock which is the subject of a Stock Repurchase to the "Callaway Golf Company Grantor Stock Trust" will not affect the reduction in Stockholders' Equity required by GAAP upon such Stock Repurchase.

"Stockholders' Equity" means, as of any date of determination and with

respect to any Person, the consolidated stockholders' equity of the Person as of that date determined in accordance with GAAP; provided that there

shall be excluded from Stockholders' Equity any amount attributable to Disqualified Stock.

"Subordinated Obligations" means (a) any Seller Subordinated Notes and

(b) any other Indebtedness of Borrower that (i) does not have any scheduled principal payment, mandatory principal prepayment or sinking fund payment due prior to December 31, 2003, (ii) is not secured by any Lien on any Property of Borrower or any of its Subsidiaries, (iii) is not guaranteed by any Subsidiary of Borrower, (iv) is subordinated by its terms in right of payment to the Obligations pursuant to provisions acceptable to the Requisite Lenders, (v) is subject to such financial and other covenants and events of default as may be acceptable to the Requisite Lenders and (vi) is subject to customary interest blockage and delayed acceleration provisions as may be acceptable to the Requisite Lenders.

"Subsidiary" means, as of any date of determination and with respect

to any Person, any corporation, limited liability company or partnership (whether or not, in any case, characterized as such or as a "joint venture"), whether now existing or hereafter organized or acquired: (a) in the case of a corporation or limited liability company, of which a majority of the securities having ordinary voting power for the election of directors or other governing body (other than securities having such power only by reason of the happening of a contingency) are at the time beneficially owned by such Person and/or one or more Subsidiaries of such Person, or (b) in the case of a partnership, of which a majority of the partnership or other ownership interests are at the time beneficially owned by such Person and/or one or more of its Subsidiaries.

"Subsidiary Guarantors" means all Domestic Subsidiaries of Borrower

that are Significant Subsidiaries.

"Subsidiary Guaranty" means the continuing guaranty of the Obligations

to be executed and delivered pursuant to Article 8 by each Subsidiary

Guarantor, in the form of Exhibit I, either as originally executed or as it

may from time to time be supplemented, modified, amended, extended or
supplanted.

"Swing Line" means the revolving line of credit established by the

Swing Line Lender in favor of Borrower pursuant to Section 2.8.

"Swing Line Documents" means the promissory note and any other

documents executed by Borrower in favor of the Swing Line Lender in
connection with the Swing Line.

"Swing Line Lender" means Wells Fargo Bank, National Association.

"Swing Line Loans" means loans made by the Swing Line Lender to

Borrower pursuant to Section 2.8.

"Swing Line Outstandings" means, as of any date of determination, the

aggregate principal Indebtedness of Borrower on all Swing Line Loans then
outstanding.

"to the best knowledge of" means, when modifying a representation,

warranty or other statement of any Person, that the fact or situation
described therein is known by the Person (or, in the case of a Person other
than a natural Person, known by a Responsible Official of that Person)
making the representation, warranty or other statement, or with the
exercise of reasonable due diligence under the circumstances (in accordance
with the standard of what a reasonable Person in similar circumstances
would have done) would have been known by the Person (or, in the case of a
Person other than a natural Person, would have been known by a Responsible
Official of that Person).

"type", when used with respect to any Loan or Advance, means the

designation of whether such Loan or Advance is an Alternate Base Rate Loan
or Advance, or a Eurodollar Rate Loan or Advance.

"Wholly-Owned Subsidiary" means a Subsidiary of Borrower, 100% of the

capital stock or other equity interest of which is owned, directly or

indirectly, by Borrower, except for director's qualifying shares required

by applicable Laws.

1.2 Use of Defined Terms. Any defined term used in the plural shall

refer to all members of the relevant class, and any defined term used in the
singular shall refer to any one or more of the members of the relevant class.

1.3 Accounting Terms. All accounting terms not specifically defined

in this Agreement shall be construed in conformity with, and all financial data
required to be submitted by this Agreement shall be prepared in conformity with,
GAAP applied on a consistent basis, except as otherwise specifically prescribed

herein. In the event that GAAP changes during the term of this Agreement such
that the covenants contained in Sections 6.12 through 6.15, inclusive, would

then be calculated in a different manner or with different components, (a)
Borrower and the Lenders agree to amend this Agreement in such respects as are
necessary to conform those covenants as criteria for evaluating Borrower's
financial condition to substantially the same criteria as were effective prior
to such change in GAAP and (b) Borrower shall be deemed to be in compliance with
the covenants contained in the aforesaid Sections if and to the extent that
Borrower would have been in compliance therewith under GAAP as in effect
immediately prior to such change, but shall have the obligation to deliver each
of the materials described in Article 7 to the Administrative Agent and the

Lenders, on the dates therein specified, with financial data presented in a
manner which conforms with GAAP as in effect immediately prior to such change.

1.4 Rounding. Any financial ratios required to be maintained by

Borrower pursuant to this Agreement shall be calculated by dividing the
appropriate component by the other component, carrying the result to one place
more than the number of places by which such ratio is expressed in this
Agreement and rounding the result up or down to the nearest number (with a
round-up if there is no nearest number) to the number of places by which such
ratio is expressed in this Agreement.

1.5 Exhibits and Schedules. All Exhibits and Schedules to this

Agreement, either as originally existing or as the same may from time to time be
supplemented, modified or amended, are incorporated herein by this reference. A
matter disclosed on any Schedule shall be deemed disclosed on all Schedules.

1.6 References to "Borrower and its Subsidiaries". Any reference

herein to "Borrower and its Subsidiaries" or the like shall refer solely to
Borrower during such times, if any, as Borrower shall have no Subsidiaries.

1.7 Miscellaneous Terms. The term "or" is disjunctive; the term

"and" is conjunctive. The term "shall" is mandatory; the term "may" is permissive. Masculine terms also apply to females; feminine terms also apply to males. The term "including" is by way of example and not limitation.

Article 2
LOANS AND LETTERS OF CREDIT

2.1 Loans-General.

(a) Subject to the terms and conditions set forth in this Agreement, at any time and from time to time from the Closing Date through the Line A Maturity Date, each Lender shall, pro rata according to that Lender's Pro Rata Share of the then applicable Line A Commitment, make Advances to Borrower under the Line A Commitment in such amounts as Borrower may request that do not result in the sum of (i) the aggregate principal amount outstanding under the

Line A Notes plus (ii) the Aggregate Effective Amount of all outstanding

Letters of Credit plus (iii) the Swing Line Outstandings to exceed the Line A

Commitment. Subject to the limitations set forth herein, Borrower may borrow, repay and reborrow under the Line A Commitment without premium or penalty.

(b) Subject to the terms and conditions set forth in this Agreement, at any time and from time to time from the Closing Date through the Line B Maturity Date, each Lender shall, pro rata according to that Lender's Pro Rata Share of the then applicable Line B Commitment, make Advances to Borrower under the Line B Commitment in such amounts as Borrower may request that do not result in the aggregate principal amount outstanding under the Line B Notes to exceed the Line B Commitment; provided, however, that the Lenders shall not be

obligated to make Advances under the Line B Commitment if there is then any unused credit availability under the Line A Commitment. Subject to the limitations set forth herein, Borrower may borrow, repay and reborrow under the Line B Commitment without premium or penalty.

(c) Subject to the limitations contained in Subsection (a) above, up to the Foreign Currency Equivalent of \$20,000,000 shall be available under the Line A Commitment, at the election of Borrower, in the form of one or more Foreign Currency Loans. With respect to Foreign Currency Loans:

(i) All principal of, and interest on, any Foreign Currency Loan shall be payable in the same currency as that Foreign Currency Loan;

(ii) Each Foreign Currency Loan shall be due and payable on the earlier of (A) the last day of the related Foreign Currency

Period or (B) the Line A Maturity Date;

(iii) Determination of credit availability under Section 2.1(a), if there are then any outstanding Foreign Currency Loans or

Foreign Currency Letters of Credit, shall be based on the Foreign Currency Equivalent thereof as of the Banking Day immediately preceding the date of the Request for Loan;

(iv) The Requisite Lenders may suspend the obligation of the Lenders to make Foreign Currency Loans with respect to a particular Foreign Currency if the Requisite Lenders determine that current or reasonably expected market conditions for that Foreign Currency are unusually unstable or make it unlawful, impossible or impracticable for the Lenders to fund or hedge their obligations with respect to a Foreign Currency Loan;

(v) Concurrently with any Request for Loan with respect to a Foreign Currency Loan, Borrower shall pay to the Administrative Agent, for the account of the Lenders pro rata in accordance with their Pro Rata Share of the Line A Commitment, a processing fee of \$2,500;

(vi) A Request for Loan with respect to a Foreign Currency Loan shall be made at the time and in the manner required for a Eurodollar Rate Loan pursuant to Section 2.3, mutatis mutandis, except

that the words "four (4) Foreign Currency Banking Days" shall be substituted for the words "three (3) Eurodollar Banking Days" in Section 2.3(a);

(vii) Unless the Administrative Agent and the Requisite Lenders otherwise consent, no more than six (6) Foreign Currency Loans and Eurodollar Loans shall be outstanding at any one time; and

(viii) Borrower shall execute and deliver, to any Lender requesting it, a promissory note payable in the applicable Foreign Currency in a form consistent with this Agreement covering that Lender's Pro Rata Share of any Foreign Currency Loan.

(d) Subject to the next sentence, each Loan shall be made pursuant to a Request for Loan which shall specify the requested (i) date of such Loan, (ii) type of Loan, (iii) amount of such Loan, (iv) in the case of a Eurodollar Rate Loan, the Eurodollar Period for such Loan and (v) in the case of a Foreign Currency Loan, the Foreign Currency and the Foreign Currency Period for such Loan. Unless the Administrative Agent has notified, in its sole and absolute discretion, Borrower to the contrary, a Loan may be requested by telephone by a Responsible Official of Borrower, in which case Borrower shall confirm such request by promptly delivering a Request for Loan (conforming to the preceding sentence) in person or by telecopier to the Administrative Agent. Administrative Agent shall incur no liability whatsoever hereunder in acting upon any telephonic request for Loan purportedly made by a Responsible Official of Borrower, and Borrower hereby agrees to indemnify the Administrative Agent from any loss, cost, expense or liability as a result of so acting.

(e) Promptly following receipt of a Request for Loan, the Administrative Agent shall notify each Lender by telephone or telecopier (and if by telephone, promptly confirmed by telecopier) of the date and type of the Loan, the applicable Foreign Currency, the applicable Eurodollar Period or Foreign Currency Period, and that Lender's Pro Rata Share of the Loan. Not later than 10:00 a.m., California time, on the date specified for any Loan (which must be a Banking Day), each Lender shall make its Pro Rata Share of the Loan in immediately available funds (if a Foreign Currency Loan, in the applicable Foreign Currency) available to the Administrative Agent at the Administrative Agent's Office. Upon

satisfaction or waiver of the applicable conditions set forth in Article 8,

all Advances shall be credited on that date in immediately available funds to the Designated Deposit Account.

(f) Unless the Requisite Lenders otherwise consent, each Alternate Base Rate Loan shall be not less than \$1,000,000, each Eurodollar Rate Loan shall be not less than \$2,500,000, each Foreign Currency Loan shall be not less than the Foreign Currency Equivalent of \$2,500,000 and all Loans shall be in an integral multiple of \$500,000 or the Foreign Currency Equivalent thereof.

(g) The Advances made by each Lender under the Line A Commitment shall be evidenced by that Lender's Line A Note and the Advances made by each Lender under the Line B Commitment shall be evidenced by that Lender's Line B Note. Unless a Lender has received a promissory note evidencing its Pro Rata Share of a Foreign Currency Loan pursuant to

Section 2.1(c)(vii), the Advances made by each Lender as part of a Foreign

Currency Loan shall be evidenced by that Lender's Line A Note, with the references therein to "Dollars" being deemed references to the Foreign Currency which is the subject of such Foreign Currency Loan.

(h) A Request for Loan shall be irrevocable upon the Administrative Agent's first notification thereof.

(i) If no Request for Loan (or telephonic request for Loan referred to in the second sentence of Section 2.1(d), if applicable) has

been made within the requisite notice periods set forth in Section 2.2 or 2.3 prior to the end of the Eurodollar Period for any outstanding

Eurodollar Rate Loan, then on the last day of such Eurodollar Period, such Eurodollar Rate Loan shall be automatically converted into an Alternate Base Rate Loan in the same amount.

2.2 Alternate Base Rate Loans. Each request by Borrower for an

Alternate Base Rate Loan shall be made pursuant to a Request for Loan (or telephonic or other request for loan referred to in the second sentence of Section 2.1(d), if applicable) received by the Administrative Agent, at the

Administrative Agent's Office, not later than 11:00 a.m. California time, on the date (which must be a Banking Day) immediately prior to the date of the requested Alternate Base Rate Loan. All Loans (other than Foreign Currency

Loans) shall constitute Alternate Base Rate Loans unless properly designated as a Eurodollar Rate Loan pursuant to Section 2.3.

2.3 Eurodollar Rate Loans.

(a) Each request by Borrower for a Eurodollar Rate Loan shall be made pursuant to a Request for Loan (or telephonic or other request for Loan referred to in the second sentence of Section 2.1(d), if applicable) received by

the Administrative Agent, at the Administrative Agent's Office, not later than 9:00 a.m., California time, at least three (3) Eurodollar Banking Days before the first day of the applicable Eurodollar Period.

(b) On the date which is two (2) Eurodollar Banking Days before the first day of the applicable Eurodollar Period, the Administrative Agent shall confirm its determination of the applicable Eurodollar Rate (which determination shall be conclusive in the absence of manifest error) and promptly shall give notice of the same to Borrower and the Lenders by telephone or telecopier (and if by telephone, promptly confirmed by telecopier).

(c) Unless the Administrative Agent and the Requisite Lenders otherwise consent, no more than six (6) Eurodollar Rate Loans and Foreign Currency Loans shall be outstanding at any one time.

(d) No Eurodollar Rate Loan may be requested during the continuation of a Default or Event of Default.

(e) Nothing contained herein shall require any Lender to fund any Eurodollar Rate Advance in the Designated Eurodollar Market.

2.4 Letters of Credit.

(a) The Existing Letters of Credit described in Schedule 2.4 shall be

Letters of Credit for all purposes under this Agreement. Subject to the terms and conditions hereof, at any time and from time to time from the Closing Date through the Line A Maturity Date, the Issuing Lender shall issue such Letters of Credit under the Line A Commitment as Borrower may request by a Request for Letter of Credit; provided that (i) giving effect to all such Letters of Credit,

the sum of (A) the aggregate principal amount outstanding under the Line A

Notes, plus (B) the Aggregate Effective Amount of all outstanding Letters of

Credit, plus (C) the Swing Line Outstanding do not exceed the then applicable

Line A Commitment, (ii) the Aggregate Effective Amount under all outstanding Letters of Credit shall not exceed \$10,000,000 and (iii) with respect to a Request for Letter of Credit with respect to a Foreign Currency Letter of Credit, the Issuing Lender shall not be obligated to issue the Foreign Currency Letter of Credit with respect to a particular Foreign Currency if and so long as the Issuing Lender determines that current or reasonably expected market conditions for that Foreign Currency are unusually unstable or would make it unlawful, impossible or impracticable for the Issuing Lender to fund or hedge its obligations under the Foreign Currency Letter of Credit. For purposes of the foregoing, the aggregate principal amount outstanding under the Line A Notes and the Aggregate Effective Amount of outstanding Letters of Credit, to the extent consisting of Foreign Currency Loans and Foreign Currency Letters of Credit, respectively, shall be based on the Foreign Currency Equivalent thereof as of the Banking Day immediately preceding the date of the Request for Letter of Credit. Each Letter of Credit shall be in a form acceptable to the Issuing Lender. Unless all the Lenders otherwise consent in a writing delivered to the Administrative Agent, the term of any Letter of Credit shall not exceed one (1) year or extend beyond the Line A Maturity Date.

(b) Each Request for Letter of Credit shall be submitted to the Issuing Lender, with a copy to the Administrative Agent, at least two (2) Banking Days

prior to the date upon which the related Letter of Credit is proposed to be issued. The Administrative Agent shall promptly notify the Issuing Lender whether such Request for Letter of Credit, and the issuance of a Letter of Credit pursuant thereto, conforms to the requirements of this Agreement. Upon issuance of a Letter of Credit, the Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify the Lenders, of the amount and terms thereof.

(c) Upon the issuance of a Letter of Credit, each Lender shall be deemed to have purchased a pro rata participation in such Letter of Credit from the Issuing Lender in an amount equal to that Lender's Pro Rata Share. Without limiting the scope and nature of each Lender's participation in any Letter of Credit, to the extent that the Issuing Lender has not been reimbursed by Borrower for any payment required to be made by the Issuing Lender under any Letter of Credit, each Lender shall, pro rata according to its Pro Rata Share, reimburse the Issuing Lender through the Administrative Agent promptly upon demand for the amount of such payment. The obligation of each Lender to so reimburse the Issuing Lender shall be absolute and unconditional and shall not be affected by the occurrence of an Event of Default or any other occurrence or event. Any such reimbursement shall not relieve or otherwise impair the obligation of Borrower to reimburse the Issuing Lender for the amount of any payment made by the Issuing Lender under any Letter of Credit together with interest as hereinafter provided.

(d) Borrower agrees to pay to the Issuing Lender through the Administrative Agent an amount equal to any payment made by the Issuing Lender with respect to each Letter of Credit within one (1) Banking Day after demand made by the Issuing Lender therefor, together with interest on such amount from the date of any payment made by the Issuing Lender at the rate applicable to Alternate Base Rate Loans for two (2) Banking Days and thereafter at the Default Rate. The principal amount of any such payment shall be used to reimburse the Issuing Lender for the payment made by it under the Letter of Credit and, to the extent that the Lenders have not reimbursed the Issuing Lender pursuant to Section 2.4(c), the interest amount of any such payment shall be for the account

of the Issuing Lender. Each Lender that has reimbursed the Issuing Lender pursuant to Section 2.4(c) for its Pro Rata Share of any payment made by the

Issuing Lender under a Letter of Credit shall thereupon acquire a pro rata participation, to the extent of such reimbursement, in the claim of the Issuing Lender against Borrower for reimbursement of principal and interest under this Section 2.4(d) and shall share, in accordance with that pro rata participation,

in any principal payment made by Borrower with respect to such claim and in any interest payment made by Borrower (but only with respect to periods subsequent to the date such Lender reimbursed the Issuing Lender) with respect to such claim.

(e) Borrower may, pursuant to a Request for Loan, request that Advances be made pursuant to Section 2.1(a) to provide funds for the payment

required by Section 2.4(d) and, for this purpose, the conditions precedent set

forth in Article 8 shall not apply. The proceeds of such Advances shall be paid

directly to the Issuing Lender to reimburse it for the payment made by it under the Letter of Credit.

(f) If Borrower fails to make the payment required by Section 2.4(d)

within the time period therein set forth, in lieu of the reimbursement to the Issuing Lender under Section 2.4(c) the Issuing Lender may (but is not required

to), without notice to or the consent of Borrower, instruct the Administrative Agent to cause Advances to be made by the Lenders under the Line A Commitment in an aggregate amount equal to the amount paid by the Issuing Lender with respect to that Letter of Credit and, for this purpose, the conditions precedent set forth in Article 8 shall not apply. The proceeds of such Advances shall be paid

directly to the Issuing Lender to reimburse it for the payment made by it under the Letter of Credit.

(g) The issuance of any supplement, modification, amendment, renewal, or extension to or of any Letter of Credit shall be treated in all respects the same as the issuance of a new Letter of Credit.

(h) The obligation of Borrower to pay to the Issuing Lender the amount of any payment made by the Issuing Lender under any Letter of Credit shall be absolute, unconditional, and irrevocable, subject only to performance by the Issuing Lender of its obligations to Borrower under Uniform Commercial Code Section 5109. Without limiting the foregoing, Borrower's obligations shall not be affected by any of the following circumstances:

(i) any lack of validity or enforceability prior to its stated expiration date of the Letter of Credit, this Agreement, or any other agreement or instrument relating thereto;

(ii) any amendment or waiver of or any consent to departure from the Letter of Credit, this Agreement, or any other agreement or instrument relating thereto, with the consent of Borrower;

(iii) the existence of any claim, setoff, defense, or other rights which Borrower may have at any time against the Issuing Lender, the Administrative Agent or any Lender, any beneficiary of the Letter of Credit (or any persons or entities for whom any such beneficiary may be acting) or any other Person, whether in connection with the Letter of

Credit, this Agreement, or any other agreement or instrument relating thereto, or any unrelated transactions;

(iv) any demand, statement, or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid, or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever so long as any such document appeared substantially to comply with the terms of the Letter of Credit;

(v) payment by the Issuing Lender in good faith under the Letter of Credit against presentation of a draft or any accompanying document which does not strictly comply with the terms of the Letter of Credit;

(vi) the existence, character, quality, quantity, condition, packing, value or delivery of any Property purported to be represented by documents presented in connection with any Letter of Credit or any difference between any such Property and the character, quality, quantity, condition, or value of such Property as described in such documents;

(vii) the time, place, manner, order or contents of shipments or deliveries of Property as described in documents presented in connection with any Letter of Credit or the existence, nature and extent of any insurance relative thereto;

(viii) the solvency or financial responsibility of any party issuing any documents in connection with a Letter of Credit;

(ix) any failure or delay in notice of shipments or arrival of any Property;

(x) any error in the transmission of any message relating to a Letter of Credit not caused by the Issuing Lender, or any delay or interruption in any such message;

(xi) any error, neglect or default of any correspondent of the Issuing Lender in connection with a Letter of Credit;

(xii) any consequence arising from acts of God, war, insurrection, civil unrest, disturbances, labor disputes, emergency conditions or other causes beyond the control of the Issuing Lender;

(xiii) so long as the Issuing Lender in good faith determines that the contract or document appears substantially to comply with the terms of the Letter of Credit, the form, accuracy, genuineness or legal effect of any contract or document referred to in any document submitted to the Issuing Lender in connection with a Letter of Credit; and

(xiv) where the Issuing Lender has acted in good faith and observed general banking usage, any other circumstances whatsoever.

(i) The Issuing Lender shall be entitled to the protection accorded to the Administrative Agent pursuant to Section 10.6, mutatis mutandis.

(j) The Uniform Customs and Practice for Documentary Credits, as published in its most current version by the International Chamber of Commerce, shall be deemed a part of this Section and shall apply to all Letters of Credit to the extent not inconsistent with applicable Law.

2.5 Voluntary Reduction of Commitments. Borrower shall have the

right, at any time and from time to time, without penalty or charge, upon at least five (5) Banking Days' prior written notice by a Responsible Official of Borrower to the Administrative Agent, voluntarily to reduce, permanently and irrevocably, in aggregate principal amounts in an integral multiple of \$500,000 but not less than \$2,500,000, or to terminate, all or a portion of the then undisbursed portion of the Commitments. The Administrative Agent shall promptly notify the Lenders of any reduction or termination of the Commitments under this Section.

2.6 Optional Termination of Commitments. Following the occurrence of

a Change in Control, the Requisite Lenders may in their sole and absolute discretion elect, during the thirty (30) day period immediately subsequent to the later of (a) such occurrence or (b) the earlier of (i) receipt of Borrower's

written notice to the Administrative Agent of such occurrence or (ii) if no such notice has been received by the Administrative Agent, the date upon which the Administrative Agent has actual knowledge thereof, to terminate the Commitments, in which case the Commitments

shall be terminated effective on the date which is thirty (30) days subsequent to written notice from the Administrative Agent to Borrower thereof.

2.7 Administrative Agent's Right to Assume Funds Available for

Advances. Unless the Administrative Agent shall have been notified by any

Lender no later than 10:00 a.m. on the Banking Day of the proposed funding by the Administrative Agent of any Loan that such Lender does not intend to make available to the Administrative Agent such Lender's portion of the total amount of such Loan, the Administrative Agent may assume that such Lender has made such amount available to the Administrative Agent on the date of the Loan and the Administrative Agent may, in reliance upon such assumption, make available to Borrower a corresponding amount. If the Administrative Agent has made funds available to Borrower based on such assumption and such corresponding amount is not in fact made available to the Administrative Agent by such Lender, the Administrative Agent shall be entitled to recover such corresponding amount on demand from such Lender. If such Lender does not pay such corresponding amount forthwith upon the Administrative Agent's demand therefor, the Administrative Agent promptly shall notify Borrower and Borrower shall pay such corresponding amount to the Administrative Agent. The Administrative Agent also shall be entitled to recover from such Lender interest on such corresponding amount in respect of each day from the date such corresponding amount was made available by the Administrative Agent to Borrower to the date such corresponding amount is recovered by the Administrative Agent, at a rate per annum equal to the daily Federal Funds Rate. Nothing herein shall be deemed to relieve any Lender from its obligation to fulfill its share of the Commitments or to prejudice any rights which the Administrative Agent or Borrower may have against any Lender as a result of any default by such Lender hereunder.

2.8 Swing Line Loans. (a) The Swing Line Lender shall from time to

time from the Closing Date through the day prior to the Line A Maturity Date make Swing Line Loans to Borrower in such amounts as Borrower may request,

provided that (a) after giving effect to such Swing Line Loan, the Swing Line

Outstandings do not exceed \$5,000,000, (b) without the consent of all of the Lenders, no Swing Line Loan may be made during the continuation of an Event of Default and (c) the Swing Line Lender has not given at least twenty-four (24) hours prior notice to Borrower that availability under the Swing Line is suspended or terminated. Borrower may borrow, repay and reborrow under this Section. Unless notified to the contrary by the Swing Line Lender, borrowings under the Swing Line may be made in amounts which are integral multiples of \$100,000 upon telephonic request by a Responsible Official of Borrower made to the Administrative Agent not later than 1:00 p.m., California time, on the Banking Day of the requested borrowing (which telephonic request shall be promptly confirmed in writing by telecopier). Promptly after receipt of such a request

for borrowing, the Administrative Agent shall provide telephonic verification to the Swing Line Lender that, after giving effect to such request, availability for Loans will exist under Section 2.1(a) (and such verification shall be

promptly confirmed in writing by telecopier). Unless notified to the contrary by the Swing Line Lender, each repayment of a Swing Line Loan shall be in an amount which is an integral multiple of \$100,000. If Borrower instructs the Swing Line Lender to debit its demand deposit account at the Swing Line Lender in the amount of any payment with respect to a Swing Line Loan, or the Swing Line Lender otherwise receives repayment, after 3:00 p.m., California time, on a Banking Day, such payment shall be deemed received on the next Banking Day. The Swing Line Lender shall promptly notify the Administrative Agent of the Swing Loan Outstandings each time there is a change therein.

(a) Swing Line Loans shall bear interest at a fluctuating rate per annum equal to the Alternate Base Rate. Interest shall be payable on such dates, not more frequent than monthly, as may be specified by the Swing Line Lender and in any event on the Line A Maturity Date. The Swing Line Lender shall be responsible for invoicing Borrower for such interest. The interest payable on Swing Line Loans is solely for the account of the Swing Line Lender (subject to clause (d) below).

(b) The Swing Line Loans shall be payable on demand made by the Swing Line Lender and in any event on the Line A Maturity Date.

(c) Upon the making of a Swing Line Loan, each Lender shall be deemed to have purchased from the Swing Line Lender a participation therein in an amount equal to that Lender's Pro Rata Share of the Commitment times the amount

of the Swing Line Loan. Within one (1) Banking Day after demand made by the Swing Line Lender, each Lender shall, according to its Pro Rata Share of the Line A Commitment, promptly provide to the Swing Line Lender its purchase price therefor in an amount equal to its participation therein. The obligation of each Lender to so provide its purchase price to the Swing Line Lender shall be absolute and unconditional (except only demand made by the Swing Line Lender) and shall not be affected by the occurrence of a Default or Event of Default;

provided that no Lender shall be obligated to purchase its Pro Rata Share of (i)

Swing Line Loans to the extent that Swing Line Outstandings are in excess of \$5,000,000 and (ii) any Swing Line Loan made (absent the consent of all of the Lenders) during the continuation of an Event of Default. Each Lender that has provided to the Swing Line Lender the purchase price due for its participation in Swing Line Loans shall thereupon acquire a pro rata participation, to the extent of such payment, in the claim of the Swing Line Lender against Borrower for principal and interest and shall share, in accordance with that pro rata participation, in any principal payment made by Borrower with respect to

such claim and in any interest payment made by Borrower (but only with respect to periods subsequent to the date such Lender paid the Swing Line Lender its purchase price) with respect to such claim.

(d) In the event that the Swing Line Outstandings are in excess of \$3,000,000 on three (3) consecutive Banking Days, then on the next Banking Day (unless Borrower has made other arrangements acceptable to the Swing Line Lender to reduce the Swing Line Outstandings below \$3,000,000), Borrower shall request a Loan pursuant to Section 2.1(a) sufficient to reduce the Swing Line

Outstandings below \$3,000,000. In addition, upon any demand for payment of the Swing Line Outstandings by the Swing Line Lender (unless Borrower has made other arrangements acceptable to the Swing Line Lender to reduce the Swing Line Outstandings to \$0), Borrower shall request a Loan pursuant to Section 2.1(a)

sufficient to repay all Swing Line Outstandings (and, for this purpose, Section 2.1(f) shall not apply). In each case, the Administrative Agent shall

automatically provide the responsive Advances made by each Lender to the Swing Line Lender (which the Swing Line Lender shall then apply to the Swing Line Outstandings). In the event that Borrower fails to request a Loan within the time specified by Section 2.2 on any such date, the Administrative Agent may,

but is not required to, without notice to or the consent of Borrower, cause Advances to be made by the Lenders under the Commitment in amounts which are sufficient to reduce the Swing Line Outstandings as required above. The conditions precedent set forth in Article 8 shall not apply to Advances to be

made by the Lenders pursuant to the three preceding sentences. The proceeds of such Advances shall be paid directly to the Swing Line Lender for application to the Swing Line Outstandings.

2.9 Guaranty. The Obligations shall be guaranteed pursuant to the Subsidiary Guaranty.

Article 3
PAYMENTS AND FEES

3.1 Principal and Interest.

(a) Interest shall be payable on the outstanding daily unpaid principal amount of each Advance from the date thereof until payment in full is made and shall accrue and be payable at the rates set forth or provided for herein before and after Default, before and after maturity, before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law, with interest on overdue interest at the Default Rate to the fullest extent permitted by applicable Laws.

(b) Interest accrued on each Alternate Base Rate Loan shall be due and payable on each Monthly Payment Date. Except as otherwise provided in -----
Section 3.9, the unpaid principal amount of any Alternate Base Rate Loan

shall bear interest at a fluctuating rate per annum equal to the Alternate Base Rate. Each change in the interest rate under this Section 3.1(b) due to a -----
change in the Alternate Base Rate shall take effect simultaneously with the corresponding change in the Alternate Base Rate.

(c) Interest accrued on each Eurodollar Rate Loan which is for a term of three months or less shall be due and payable on the last day of the related Eurodollar Period. Interest accrued on each other Eurodollar Rate Loan shall be due and payable on the date which is three months after the date such Eurodollar Rate Loan was made (and, in the event that all of the Lenders have approved a Eurodollar Period of longer than six months, every three months thereafter through the last day of the Eurodollar Period) and on the last day of the related Eurodollar Period. Except as otherwise provided in Section 3.9, the -----
unpaid principal amount of any Eurodollar Rate Loan shall bear interest at a rate per annum equal to the Eurodollar Rate for that Eurodollar Rate Loan plus -----
the Applicable Eurodollar Rate Margin.

(d) Each Foreign Currency Loan shall bear interest at a rate per annum equal to the Foreign Currency Rate for that Foreign Currency Loan plus -----
.45 of 1% (45 basis points).

(e) If not sooner paid, the principal Indebtedness evidenced by the Notes shall be payable as follows:

(i) the amount, if any, by which the sum of (A) the principal Indebtedness evidenced by the Line A Notes plus (B) the Aggregate Effective Amount of all outstanding Letters of Credit plus (C) the Swing Line Outstandings at any time exceeds the then applicable Line A Commitment shall be payable immediately (with the aggregate principal amount outstanding under the Line A Notes and Aggregate Effective Amount of outstanding Letters of Credit, to the extent consisting of Foreign Currency Loans and Foreign Currency Letters of Credit, respectively, being based on the Foreign Currency Equivalents thereof as of the last Banking Day in each calendar month);

(ii) the amount, if any, by which the principal Indebtedness evidenced by the Line B Notes at any time exceeds the then applicable Line B Commitment shall be payable immediately;

(iii) the principal Indebtedness evidenced by the Line A Notes shall in any event be payable on the Line A Maturity Date; and

(iv) the principal Indebtedness evidenced by the Line B Notes shall in any event be payable on the Line B Maturity Date.

(f) The principal Indebtedness evidenced by the Notes shall be prepaid on or before the third Banking Day following the receipt by Borrower or any of its Subsidiaries of (i) Net Cash Sales Proceeds from Dispositions (other

than the Headquarters Transaction) in excess of \$15,000,000 in any Fiscal Year,

by an amount equal to the amount of such Net Cash Sales Proceeds in excess of \$15,000,000, (ii) Net Cash Issuance Proceeds from the issuance of debt securities of Borrower or any of its Subsidiaries (except an issuance of debt

securities to Borrower or to a Subsidiary of Borrower), by an amount equal to 50% of such Net Cash Issuance Proceeds and (iii) Net Cash Issuance Proceeds from the issuance of equity securities of Borrower or any of its Subsidiaries (except an issuance of equity securities to Borrower or to a Subsidiary of

Borrower or to employees or former employees of Borrower pursuant to an employee stock option plan maintained by Borrower), by an amount equal to 25% of such Net Cash Issuance Proceeds. Any mandatory prepayments under this Subsection shall be applied first to the Indebtedness evidenced by the Line A Notes and then to the Indebtedness evidenced by the Line B Notes.

(g) The principal Indebtedness evidenced by the Notes may, at any time and from time to time, voluntarily be paid or prepaid in whole or in part without premium or penalty, except that with respect to any voluntary prepayment

under this Subsection, (i) any partial prepayment shall be not less than \$1,000,000 and

shall be an integral multiple of \$500,000, (ii) the Administrative Agent shall have received written notice of any prepayment by 9:00 a.m. California time on the date that is one (1) Banking Day before the date of prepayment (which must be a Banking Day) in the case of an Alternate Base Rate Loan, and, in the case of a Eurodollar Rate Loan, three (3) Banking Days before the date of prepayment, which notice shall identify the date and amount of the prepayment and the Loan(s) being prepaid, (iii) each prepayment of principal on any Eurodollar Rate Loan shall be accompanied by payment of interest accrued to the date of payment on the amount of principal paid and (iv) any payment or prepayment of all or any part of any Eurodollar Rate Loan on a day other than the last day of the applicable Eurodollar Period shall be subject to Section 3.7(e).

3.2 Arrangement Fee. On the Closing Date, Borrower shall pay to the Arranger the balance of the arrangement fee as heretofore agreed upon by letter agreement dated November 7, 1997 between Borrower and the Arranger. The arrangement fee paid to the Arranger is solely for its own account and is nonrefundable.

3.3 Commitment Fee. From the Closing Date through the Line A Maturity Date, Borrower shall pay to the Administrative Agent, for the ratable accounts of the Lenders pro rata according to their Pro Rata Share of the Commitments, a commitment fee equal to the sum of (a) the daily Applicable Commitment Fee Rate per annum times the average daily amount by which the Line A Commitment exceeds the sum of (i) the average daily principal Indebtedness evidenced by the Line A Notes plus (ii) the average daily Aggregate Effective Amount of all outstanding Letters of Credit plus (b) the daily Applicable Commitment Fee Rate per annum times the average daily amount by which the Line B Commitment exceeds the average daily principal Indebtedness evidenced by the Line B Notes. The average daily principal indebtedness evidenced by the Line A Notes, in the case of Foreign Currency Loans, and the average daily Aggregate Effective Amount of outstanding Letters of Credit, in the case of Foreign Currency Letters of Credit, shall be determined for this purpose for each calendar month of the Fiscal Quarter based on the Foreign Currency Equivalents thereof as of the last Banking Day in each such calendar month. The commitment fee shall be payable quarterly in arrears on each Quarterly Payment Date and on the Line A Maturity Date.

3.4 Agency Fee. Borrower shall pay to the Administrative Agent an agency fee in such amounts and at such times as heretofore agreed upon by letter agreement dated November 7, 1997 between Borrower and the Administrative Agent. The agency fee paid to the Administrative Agent is solely for its own account and is nonrefundable.

3.5 Letter of Credit Fees. With respect to each Letter of Credit,

Borrower shall pay the following fees:

(a) concurrently with the issuance of each Standby Letter of Credit, a letter of credit issuance fee to the Issuing Lender for the sole account of the Issuing Lender, in an amount set forth in a letter agreement between Borrower and the Issuing Lender;

(b) concurrently with the issuance of each Standby Letter of Credit, to the Administrative Agent for the ratable account of the Lenders in accordance with their Pro Rata Share of the Line A Commitment, a standby letter of credit fee in an amount equal to the Applicable Standby Letter of Credit Fee as of the date of such issuance times the face amount of such Standby Letter of Credit

through the termination or expiration of such Standby Letter of Credit, which the Administrative Agent shall promptly pay to the Lenders; and

(c) concurrently with each issuance, negotiation, drawing or amendment of each Commercial Letter of Credit, to the Issuing Lender for the sole account of the Issuing Lender, issuance, negotiation, drawing and amendment fees in the amounts set forth from time to time as the Issuing Lender's published scheduled fees for such services.

All fees with respect to a Foreign Currency Letter of Credit shall be payable in Dollars based on the Foreign Currency Equivalent as of the Banking Day immediately preceding the date of the Request for Letter of Credit. Each of the fees payable with respect to Letters of Credit under this Section is earned when due and is nonrefundable.

3.6 Increased Commitment Costs. If any Lender shall determine in

good faith that the introduction after the Closing Date of any applicable law, rule, regulation or guideline regarding capital adequacy, or any change therein or any change in the interpretation or administration thereof by any central bank or other Governmental Agency charged with the interpretation or administration thereof, or compliance by such Lender (or its Eurodollar Lending Office) or any corporation controlling such Lender, with any request, guideline or directive regarding capital adequacy (whether or not having the force of Law) of any such central bank or other authority not imposed as a result of such Lender's or such corporation's failure to comply with any other Laws, affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender and (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy and such

Lender's desired return on capital) determines in good faith that the amount of such capital is increased, or the rate of return on capital is reduced, as a consequence of its obligations under this Agreement, then, within five (5) Banking Days after demand of such Lender, Borrower shall pay to such Lender, from time to time as specified in good faith by such Lender, additional amounts sufficient to compensate such Lender in light of such circumstances, to the extent reasonably allocable to such obligations under this Agreement, provided

that Borrower shall not be obligated to pay any such amount which arose prior to the date which is ninety (90) days preceding the date of such demand or is attributable to periods prior to the date which is ninety (90) days preceding the date of such demand. Each Lender's determination of such amounts shall be conclusive in the absence of manifest error.

3.7 Eurodollar Costs and Related Matters.

(a) In the event that any Governmental Agency imposes on any Lender any reserve or comparable requirement (including any emergency, supplemental or other reserve) with respect to the Eurodollar Obligations hereunder of that Lender, Borrower shall pay that Lender within five (5) Banking Days after demand all amounts necessary to compensate such Lender (determined as though such Lender's Eurodollar Lending Office had funded 100% of its Eurodollar Rate Advance in the Designated Eurodollar Market) in respect of the imposition of such reserve requirements (provided, that

Borrower shall not be obligated to pay any such amount which arose prior to the date which is ninety (90) days preceding the date of such demand or is attributable to periods prior to the date which is ninety (90) days preceding the date of such demand). The Lender's determination of such amount shall be conclusive in the absence of manifest error.

(b) If, after the date hereof, the existence or occurrence of any Special Eurodollar Circumstance:

(1) shall subject any Lender or its Eurodollar Lending Office to any tax, duty or other charge or cost with respect to any Eurodollar Rate Advance, any of its Notes evidencing Eurodollar Rate Loans or its obligation to make Eurodollar Rate Advances, or shall change the basis of taxation of payments to any Lender attributable to the principal of or interest on any Eurodollar Rate Advance or any other amounts due under this Agreement in respect of any Eurodollar Rate Advance, any of its Notes evidencing Eurodollar Rate Loans or its obligation to make Eurodollar Rate Advances, excluding (i) taxes imposed on

or measured in whole or in part by its overall net income by (A) any jurisdiction (or political subdivision thereof) in which it is organized or maintains its principal office or Eurodollar Lending Office or (B) any jurisdiction (or political subdivision thereof) in which it is "doing business" and (ii) any withholding taxes or other taxes based on gross income imposed by the United States of America for any period with respect to which it has failed to provide Borrower with the appropriate form or forms required by Section 11.21, to the extent such forms are then

required by applicable Laws;

(2) shall impose, modify or deem applicable any reserve not applicable or deemed applicable on the date hereof (including

any reserve imposed by the Board of Governors of the Federal Reserve System, special deposit, capital or similar requirements against assets of, deposits with or for the account of, or credit extended by, any Lender or its Eurodollar Lending Office); or

(3) shall impose on any Lender or its Eurodollar Lending Office or the Designated Eurodollar Market any other condition affecting any Eurodollar Rate Advance, any of its Notes evidencing Eurodollar Rate Loans, its obligation to make Eurodollar Rate Advances or this Agreement, or shall otherwise affect any of the same;

and the result of any of the foregoing, as determined in good faith by such Lender, increases the cost to such Lender or its Eurodollar Lending Office of making or maintaining any Eurodollar Rate Advance or in respect of any Eurodollar Rate Advance, any of its Notes evidencing Eurodollar Rate Loans or its obligation to make Eurodollar Rate Advances or reduces the amount of any sum received or receivable by such Lender or its Eurodollar Lending Office with respect to any Eurodollar Rate Advance, any of its Notes evidencing Eurodollar Rate Loans or its obligation to make Eurodollar Rate Advances (assuming such Lender's Eurodollar Lending Office had funded 100% of its Eurodollar Rate Advance in the Designated Eurodollar Market), then, within five (5) Banking Days after demand by such Lender (with a copy to the Administrative Agent), Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender for such increased cost or reduction (determined as though such Lender's Eurodollar Lending Office had funded 100% of its Eurodollar Rate Advance in the Designated Eurodollar

Market); provided, that Borrower shall not be obligated to pay any such

amount which arose prior to the date which is ninety (90) days preceding the date of such demand or is attributable to periods prior to the date which is ninety (90) days preceding the date of such demand. A statement of any Lender claiming compensation under this subsection shall be conclusive in the absence of manifest error.

(c) If, after the date hereof, the existence or occurrence of any Special Eurodollar Circumstance shall, in the good faith opinion of any Lender, make it unlawful or impossible for such Lender or its Eurodollar Lending Office to make, maintain or fund its portion of any Eurodollar Rate Loan, or materially restrict the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the Designated Eurodollar Market, or to determine or charge interest rates based upon the Eurodollar Rate, and such Lender shall so notify the Administrative Agent, then such Lender's obligation to make Eurodollar Rate Advances shall be suspended for the duration of such illegality or impossibility and the Administrative Agent forthwith shall give notice thereof to the other Lenders and Borrower. Upon receipt of such notice, the outstanding principal amount of such Lender's Eurodollar Rate Advances, together with accrued interest thereon, automatically shall be converted to Alternate Base Rate Advances on either (1) the last day of the Eurodollar Period(s) applicable to such Eurodollar Rate Advances if such Lender may lawfully continue to maintain and fund such Eurodollar Rate Advances to such day(s) or (2) immediately if such Lender may not lawfully continue to fund and maintain such Eurodollar Rate Advances to such day(s), provided that in such event the conversion shall not be

subject to payment of a prepayment fee under Section 3.7(e). Each Lender agrees

to endeavor promptly to notify Borrower of any event of which it has actual knowledge, occurring after the Closing Date, which will cause that Lender to notify the Administrative Agent under this Section, and agrees to designate a different Eurodollar Lending Office if such designation will avoid the need for such notice and will not, in the good faith judgment of such Lender, otherwise be materially disadvantageous to such Lender. In the event that any Lender is unable, for the reasons set forth above, to make, maintain or fund its portion of any Eurodollar Rate Loan, such Lender shall fund such amount as an Alternate Base Rate Advance for the same period of time, and such amount shall be treated in all respects as an Alternate Base Rate Advance. Any Lender whose obligation to make Eurodollar Rate Advances has been suspended under this Section shall promptly notify the Administrative Agent and Borrower of the cessation of the Special Eurodollar Circumstance which gave rise to such suspension.

(d) If, with respect to any proposed Eurodollar Rate Loan:

(1) the Administrative Agent reasonably determines that, by reason of circumstances affecting the Designated Eurodollar Market generally that are beyond the reasonable control of the Lenders, deposits in Dollars (in the applicable amounts) are not being offered to any Lender in the Designated Eurodollar Market for the applicable Eurodollar Period; or

(2) the Requisite Lenders advise the Administrative Agent that the Eurodollar Rate as determined by the Administrative Agent (i) does not represent the effective pricing to such Lenders for deposits in Dollars in the Designated Eurodollar Market in the relevant amount for the applicable Eurodollar Period, or (ii) will not adequately and fairly reflect the cost to such Lenders of making the applicable Eurodollar Rate Advances;

then the Administrative Agent forthwith shall give notice thereof to Borrower and the Lenders, whereupon until the Administrative Agent notifies Borrower that the circumstances giving rise to such suspension no longer exist, the obligation of the Lenders to make any future Eurodollar Rate Advances shall be suspended.

(e) Upon payment or prepayment of any Eurodollar Rate Advance (other than as the result of a conversion required under Section 3.7(c)) on

a day other than the last day in the applicable Eurodollar Period (whether voluntarily, involuntarily, by reason of acceleration, or otherwise), or upon the failure of Borrower (for a reason other than the breach by a Lender of its obligation pursuant to Section 2.1(a) to make an Advance) to

borrow on the date or in the amount specified for a Eurodollar Rate Loan in any Request for Loan, Borrower shall pay to the appropriate Lender within five (5) Banking Days after demand a prepayment fee or failure to borrow fee, as the case may be (determined as though 100% of the Eurodollar Rate Advance had been funded in the Designated Eurodollar Market) equal to the sum of:

(1) the present value of the excess, if any, of (i) the additional interest that would have accrued on the amount prepaid or not borrowed at the Eurodollar Rate if that amount had remained or been outstanding through the last day of the applicable Eurodollar Period over (ii) the interest that the Lender could recover by placing

such amount on deposit in the Designated Eurodollar Market for a period beginning on the date of the prepayment or failure to borrow and ending on the last day of the applicable Eurodollar Period (or, if no deposit rate quotation is

available for such period, for the most comparable period for which a deposit rate quotation may be obtained); plus

(2) all out-of-pocket expenses incurred by the Lender reasonably attributable to such payment, prepayment or failure to borrow.

Each Lender's determination of the amount of any prepayment fee payable under this Section shall be conclusive in the absence of manifest error.

(f) Each Lender agrees to endeavor promptly to notify Borrower of any event of which it has actual knowledge, occurring after the Closing Date, which will entitle such Lender to compensation pursuant to clause (a) or clause

(b) of this Section, and agrees to designate a different Eurodollar Lending

Office if such designation will avoid the need for or reduce the amount of such compensation and will not, in the good faith judgment of such Lender, otherwise be materially disadvantageous to such Lender. Any request for compensation by a Lender under this Section shall set forth the basis upon which it has been determined that such an amount is due from Borrower, a calculation of the amount due, and a certification that the corresponding costs have been incurred by the Lender.

3.8 Foreign Currency Costs and Related Matters. The provisions set forth in Section 3.7 are incorporated herein, mutatis mutandis, with each reference therein to "Eurodollar" being herein a reference to "Foreign Currency."

3.9 Late Payments. If any installment of principal or interest or any fee or cost or other amount payable under any Loan Document to the Administrative Agent or any Lender is not paid when due, it shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the sum of the Alternate Base Rate plus 2%, to the fullest extent permitted by applicable Laws. Accrued and unpaid interest on past due amounts (including, without limitation, interest on past due interest) shall be compounded monthly, on the last day of each calendar month, to the fullest extent permitted by applicable Laws.

3.10 Computation of Interest and Fees. Computation of interest and fees under this Agreement shall be calculated on the basis of a year of 360 days and the actual number of days elapsed. Interest shall accrue on each Loan for the day on which the Loan is made; interest shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid. Any Loan that is repaid on the same day on which it is made shall bear interest for one day. Notwithstanding anything in this Agreement to the contrary, interest in excess of the maximum amount

permitted by applicable Laws shall not accrue or be payable hereunder or under the Notes, and any amount paid as interest hereunder or under the Notes which would otherwise be in excess of such maximum permitted amount shall instead be treated as a payment of principal.

3.11 Non-Banking Days. If any payment to be made by Borrower or any

other Party under any Loan Document shall come due on a day other than a Banking Day, payment shall instead be considered due on the next succeeding Banking Day and the extension of time shall be reflected in computing interest and fees.

3.12 Manner and Treatment of Payments.

(a) Each payment hereunder (except payments pursuant to Sections

3.6, 3.7, 3.8, 11.3, 11.11 and 11.22) or on the Notes or under any other Loan

Document shall be made to the Administrative Agent at the Administrative Agent's Office for the account of each of the Lenders or the Administrative Agent, as the case may be, in immediately available funds not later than 11:00 a.m. California time, on the day of payment (which must be a Banking Day). All payments received after such time, on any Banking Day, shall be deemed received on the next succeeding Banking Day. The amount of all payments received by the Administrative Agent for the account of each Lender shall be immediately paid by the Administrative Agent to the applicable Lender in immediately available funds and, if such payment was received by the Administrative Agent by 11:00 a.m., California time, on a Banking Day and not so made available to the account of a Lender on that Banking Day, the Administrative Agent shall reimburse that Lender for the cost to such Lender of funding the amount of such payment at the Federal Funds Rate. All payments shall be made in lawful money of the United States of America, except that payments of principal and interest on Foreign Currency

Loans, and reimbursement payments in respect of Foreign Currency Letters of Credit, shall be made in the Foreign Currency of that Foreign Currency Loan or Foreign Currency Letter of Credit.

(b) Borrower hereby authorizes the Administrative Agent to debit the Designated Deposit Account as of the date any payment of principal, interest, commitment fee or other amount payable by Borrower under this Agreement is due in an amount equal to such payment. Borrower hereby agrees to take such steps as are necessary to assure that the Designated Deposit Account will, on each such date, have a credit balance in immediately available funds at least equal to the amount of such payment.

(c) Each payment or prepayment on account of any Loan shall be applied pro rata according to the outstanding Advances made by each Lender comprising such Loan.

(d) Each Lender shall use its best efforts to keep a record (in writing or by an electronic data entry system) of Advances made by it and payments received by it with respect to each of its Notes and, subject to Section 10.6(g), such record shall, as against Borrower, be presumptive evidence of the amounts owing. Notwithstanding the foregoing sentence, the failure by any Lender to keep such a record shall not affect Borrower's obligation to pay the Obligations.

(e) Each payment of any amount payable by Borrower or any other Party under this Agreement or any other Loan Document shall be made free and clear of, and without reduction by reason of, any taxes, assessments or other charges imposed by any Governmental Agency, central bank or comparable authority,

excluding (i) taxes imposed on or measured in whole or in part by its overall

net income by (A) any jurisdiction (or political subdivision thereof) in which it is organized or maintains its principal office or Eurodollar Lending Office or (B) any jurisdiction (or political subdivision thereof) in which it is "doing business" and (ii) any withholding taxes or other taxes based on gross income imposed by the United States of America for any period with respect to which it has failed to provide Borrower with the appropriate form or forms required by Section 11.21, to the extent such forms are then required by applicable Laws

(all such non-excluded taxes, assessments or other charges being hereinafter referred to as "Taxes"). To the extent that Borrower is obligated by applicable Laws to make any deduction or withholding on account of Taxes from any amount payable to any Lender under this Agreement, Borrower shall (i) make such deduction or withholding and pay the same to the relevant Governmental Agency and (ii) pay such additional amount to that Lender as is necessary to result in that Lender's receiving a net after-Tax amount equal to the amount to which that Lender would have been entitled under this Agreement absent such deduction or withholding. If and when receipt of such payment results in an excess payment or credit to that Lender on account of such Taxes, that Lender shall promptly refund such excess to Borrower.

3.13 Funding Sources. Nothing in this Agreement shall be deemed to

obligate any Lender to obtain the funds for any Loan or Advance in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan or Advance in any particular place or manner.

3.14 Failure to Charge Not Subsequent Waiver. Any decision by the

Administrative Agent or any Lender not to require payment of any interest (including

interest arising under Section 3.9), fee, cost or other amount payable under

any Loan Document, or to calculate any amount payable by a particular method, on
any occasion shall in no way limit or be deemed a waiver of the Administrative
Agent's or such Lender's right to require full payment of any interest
(including interest arising under Section 3.9), fee, cost or other amount

payable under any Loan Document, or to calculate an amount payable by another
method that is not inconsistent with this Agreement, on any other or subsequent
occasion.

3.15 Administrative Agent's Right to Assume Payments Will be Made.

Unless the Administrative Agent shall have been notified by Borrower prior to
the date on which any payment to be made by Borrower hereunder is due that
Borrower does not intend to remit such payment, the Administrative Agent may, in
its discretion, assume that Borrower has remitted such payment when so due and
the Administrative Agent may, in its discretion and in reliance upon such
assumption, make available to each Lender on such payment date an amount equal
to such Lender's share of such assumed payment. If Borrower has not in fact
remitted such payment to the Administrative Agent, each Lender shall forthwith
on demand repay to the Administrative Agent the amount of such assumed payment
made available to such Lender, together with interest thereon in respect of each
day from and including the date such amount was made available by the
Administrative Agent to such Lender to the date such amount is repaid to the
Administrative Agent at the Federal Funds Rate.

3.16 Fee Determination Detail. The Administrative Agent, and any

Lender, shall provide reasonable detail to Borrower regarding the manner in
which the amount of any payment to the Administrative Agent and the Lenders, or
that Lender, under Article 3 has been determined, concurrently with demand for

such payment.

3.17 Survivability. All of Borrower's obligations under Sections

3.6, 3.7 and 3.8 shall survive for the ninety (90) day period following the date

on which the Commitments are terminated and all Loans hereunder are fully paid,
and Borrower shall remain obligated thereunder for all claims under such
Sections made by any Lender to Borrower prior to the expiration of such period.

Article 4
REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to the Lenders that:

4.1 Existence and Qualification; Power; Compliance With Laws.

Borrower is a corporation duly formed, validly existing and in good standing under the Laws of California. Borrower is duly qualified or registered to transact business and is in good standing in each other jurisdiction in which the conduct of its business or the ownership or leasing of its Properties makes such qualification or registration necessary, except where the failure so to

qualify or register and to be in good standing would not constitute a Material Adverse Effect. Borrower has all requisite power and authority to conduct its business, to own and lease its Properties and to execute and deliver each Loan Document to which it is a Party and to perform its Obligations. All outstanding shares of capital stock of Borrower are duly authorized, validly issued, fully paid and non-assessable, and no holder thereof has any enforceable right of rescission under any applicable state or federal securities Laws. Borrower is in compliance with all Laws and other legal requirements applicable to its business, has obtained all authorizations, consents, approvals, orders, licenses and permits from, and has accomplished all filings, registrations and qualifications with, or obtained exemptions from any of the foregoing from, any Governmental Agency that are necessary for the transaction of its business,

except where the failure so to comply, obtain authorizations, etc., file,

register, qualify or obtain exemptions does not constitute a Material Adverse Effect.

4.2 Authority; Compliance With Other Agreements and Instruments and

Government Regulations. The execution, delivery and performance by Borrower and

the Subsidiary Guarantors of the Loan Documents to which each is a Party have been duly authorized by all necessary corporate action, and do not and will not:

(a) Require any consent or approval not heretofore obtained of any partner, director, stockholder, security holder or creditor of such Party;

(b) Violate or conflict with any provision of such Party's charter, articles of incorporation or bylaws, as applicable;

(c) Result in or require the creation or imposition of any Lien (other than pursuant to the Loan Documents) or Right of Others upon or with

respect to any Property now owned or leased or hereafter acquired by such Party;

(d) Violate any Requirement of Law applicable to such Party;

(e) Result in a breach of or constitute a default under, or cause or permit the acceleration of any obligation owed under, any indenture or loan or credit agreement or any other Contractual Obligation to which such Party is a party or by which such Party or any of its Property is bound or affected;

and such Party is not in violation of, or default under, any Requirement of Law or Contractual Obligation, or any indenture, loan or credit agreement described in Section 4.2(e), in any respect that constitutes a Material Adverse Effect.

4.3 No Governmental Approvals Required. Except as previously

obtained or made, no authorization, consent, approval, order, license or permit from, or filing, registration or qualification with, any Governmental Agency is or will be required to authorize or permit under applicable Laws the execution, delivery and performance by Borrower or any Subsidiary Guarantor of the Loan Documents to which it is a Party.

4.4 Subsidiaries.

(a) Schedule 4.4 hereto correctly sets forth the names, form of

legal entity, number of shares of capital stock (or other applicable unit of equity interest) issued and outstanding, and the record owner thereof and jurisdictions of organization of all Subsidiaries of Borrower. Unless otherwise indicated in Schedule 4.4, all of the outstanding shares of

capital stock, or all of the units of equity interest, as the case may be, of each such Subsidiary are owned of record and beneficially by Borrower, there are no outstanding options, warrants or other rights to purchase capital stock of any such Subsidiary, and all such shares or equity interests so owned are duly authorized, validly issued, fully paid and non-assessable, and were issued in compliance with all applicable state and federal securities and other Laws, and are free and clear of all Liens and Rights of Others, except for Permitted Encumbrances and Permitted Rights of

Others.

(b) Each Subsidiary Guarantor is a corporation duly formed, validly existing and in good standing under the Laws of its jurisdiction of organization, is duly qualified to do business as a foreign organization and is in good standing as such in each jurisdiction in which the conduct of its business or the ownership or leasing of its Properties makes such qualification necessary (except where the failure to be so duly qualified

and in good standing does not

constitute a Material Adverse Effect), and has all requisite power and authority to conduct its business and to own and lease its Properties.

(c) Each Subsidiary Guarantor is in compliance with all Laws and other requirements applicable to its business and has obtained all authorizations, consents, approvals, orders, licenses, and permits from, and each such Subsidiary Guarantor has accomplished all filings, registrations, and qualifications with, or obtained exemptions from any of the foregoing from, any Governmental Agency that are necessary for the transaction of its business, except where the failure to be in such

compliance, obtain such authorizations, consents, approvals, orders, licenses, and permits, accomplish such filings, registrations, and qualifications, or obtain such exemptions, does not constitute a Material Adverse Effect.

4.5 Financial Statements. Borrower has furnished to the Lenders (a)

the audited consolidated financial statements of Borrower and its Subsidiaries for the Fiscal Year ended December 31, 1996 and (b) the unaudited consolidated balance sheet and statement of operations of Borrower and its Subsidiaries for the Fiscal Quarter ended September 30, 1997. The financial statements described in clause (a) fairly present in all material respects the financial condition,

results of operations and changes in financial position, and the balance sheet and statement of operations described in clause (b) fairly present the financial condition and results of operations of Borrower and its Subsidiaries as of such dates and for such periods in conformity with GAAP consistently applied, subject only to normal year-end accruals and audit adjustments.

4.6 No Other Liabilities; No Material Adverse Changes. Borrower and

its Subsidiaries do not have any material liability or material contingent liability required under GAAP to be reflected or disclosed, and not reflected or disclosed, in the balance sheet described in Section 4.5(b), other than

liabilities and contingent liabilities arising in the ordinary course of business since the date of such financial statements. As of the Closing Date, no circumstance or event has occurred that constitutes a Material Adverse Effect since September 30, 1997.

4.7 Title to Property. Borrower and its Subsidiaries have valid

title to the Property (other than assets which are the subject of a Capital Lease Obligation) reflected in the balance sheet described in Section 4.5(b),

other than items of Property or exceptions to title which are in each case immaterial and Property subsequently sold or disposed of in the ordinary course of business. Such Property is free and clear of all Liens and Rights of Others,

other than Liens or Rights of Others described in Schedule 4.7 and Permitted Encumbrances and Permitted Rights of Others.

4.8 Intangible Assets. Borrower and its Subsidiaries own, or possess

the right to use to the extent necessary in their respective businesses, all material trademarks, trade names, copyrights, patents, patent rights, computer software, licenses and other Intangible Assets that are used in the conduct of their businesses as now operated, and no such Intangible Asset, to the best knowledge of Borrower, conflicts with the valid trademark, trade name, copyright, patent, patent right or Intangible Asset of any other Person to the extent that such conflict constitutes a Material Adverse Effect.

4.9 Public Utility Holding Company Act. Neither Borrower nor any of

its Subsidiaries is a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

4.10 Litigation. Except for (a) any matter fully covered as to

subject matter and amount (subject to applicable deductibles and retentions) by insurance for which the insurance carrier has not asserted lack of subject matter coverage or reserved its right to do so, (b) any matter that is the subject of a binding indemnification agreement of a financially responsible Person not an Affiliate of Borrower for which such Person has expressly acknowledged responsibility, (c) any matter, or series of related matters, involving a claim against Borrower or any of its Subsidiaries of less than \$5,000,000, (d) matters of an administrative nature not involving a claim or charge against Borrower or any of its Subsidiaries and (e) matters set forth in

Schedule 4.10, there are no actions, suits, proceedings or investigations

pending as to which Borrower or any of its Subsidiaries have been served or have received notice or, to the best knowledge of Borrower, threatened against or affecting Borrower or any of its Subsidiaries or any Property of any of them before any Governmental Agency.

4.11 Binding Obligations. Each of the Loan Documents to which

Borrower or any of the Subsidiary Guarantors is a Party will, when executed and delivered by Borrower or such Subsidiary Guarantor, constitute the legal, valid and binding obligation of Borrower or such Subsidiary Guarantor, enforceable against Borrower or such Subsidiary Guarantor in accordance with its terms,

except as enforcement may be limited by Debtor Relief Laws or equitable

principles relating to the granting of specific performance and other equitable remedies as a matter of judicial discretion.

4.12 No Default. No event has occurred and is continuing that is a

Default or Event of Default.

4.13 ERISA.

(a) With respect to each Pension Plan:

(i) Pension Plan complies in all material respects with ERISA and any other applicable Laws to the extent that noncompliance could reasonably be expected to have a Material Adverse Effect;

(ii) such Pension Plan has not incurred any "accumulated funding deficiency" (as defined in Section 302 of ERISA) that could reasonably be expected to have a Material Adverse Effect;

(iii) no "reportable event" (as defined in Section 4043 of ERISA, but excluding such events as to which the PBGC has by

regulation waived the requirement therein contained that it be notified within thirty days of the occurrence of such event) has occurred that could reasonably be expected to have a Material Adverse Effect; and

(iv) neither Borrower nor any of its Subsidiaries has engaged in any non-exempt "prohibited transaction" (as defined in Section 4975 of the Code) that could reasonably be expected to have a Material Adverse Effect.

(b) Neither Borrower nor any of its Subsidiaries has incurred or expects to incur any withdrawal liability to any Multiemployer Plan that could reasonably be expected to have a Material Adverse Effect.

4.14 Regulations G and U; Investment Company Act. No part of the

proceeds of any Loan hereunder will be used to purchase or carry, or to extend credit to others for the purpose of purchasing or carrying, any Margin Stock in violation of Regulations G and U. Neither Borrower nor any of its Subsidiaries is or is required to be registered as an "investment company" under the Investment Company Act of 1940.

4.15 Disclosure. No written statement made by a Senior Officer to

the Administrative Agent or any Lender in connection with this Agreement, or in connection with any Loan, as of the date thereof contained any untrue statement of a material fact or omitted a material fact necessary to make the statement made not misleading in light of all the circumstances existing at the date the statement was made.

4.16 Tax Liability. Borrower and its Subsidiaries have filed all tax

returns which are required to be filed, and have paid, or made provision for the payment of, all taxes with respect to the periods, Property or transactions covered by said returns, or pursuant to any assessment received by Borrower or any of its Subsidiaries, except (a) such taxes, if any, as are being contested

in good faith by appropriate proceedings and as to which adequate reserves have been established and maintained and (b) immaterial taxes so long as no material Property of Borrower or any of its Subsidiaries is at impending risk of being seized, levied upon or forfeited.

4.17 Projections. As of the Closing Date, to the best knowledge of

Borrower, the assumptions set forth in the Projections are reasonable and consistent with each other and with all facts known to Borrower, and the Projections are reasonably based on such assumptions. Nothing in this Section

4.17 shall be construed as a representation or covenant that the Projections in

fact will be achieved.

4.18 Hazardous Materials. Except as described in Schedule 4.18, as

of the Closing Date (a) neither Borrower nor any of its Subsidiaries at any time has disposed of, discharged, released or threatened the release of any Hazardous Materials on, from or under the Real Property in violation of any Hazardous Materials Law that would individually or in the aggregate constitute a Material Adverse Effect, (b) to the best knowledge of Borrower, no condition exists that violates any Hazardous Material Law affecting any Real Property except for such violations that would not individually or in the aggregate constitute a Material Adverse Effect, (c) no Real Property or any portion thereof is or has been utilized by Borrower or any of its Subsidiaries as a site for the manufacture of any Hazardous Materials and (d) to the extent that any Hazardous Materials are used, generated or stored by Borrower or any of its Subsidiaries on any Real Property, or transported to or from such Real Property by Borrower or any of its Subsidiaries, such use, generation, storage and transportation are in compliance with all Hazardous Materials Laws except for such non-compliance that would not constitute a Material Adverse Effect or be materially adverse to the interests of the Lenders.

Article 5
AFFIRMATIVE COVENANTS

(OTHER THAN INFORMATION AND

REPORTING REQUIREMENTS)

So long as any Advance remains unpaid, or any other Obligation remains unpaid, or any portion of the Commitments remains in force, Borrower shall, and shall cause its Subsidiaries to, unless the Administrative Agent (with the written approval of the Requisite Lenders) otherwise consents:

5.1 Payment of Taxes and Other Potential Liens. Pay and discharge

promptly all taxes, assessments and governmental charges or levies imposed upon any of them, upon their respective Property or any part thereof and upon their respective income or profits or any part thereof, except that Borrower and its

Subsidiaries shall not be required to pay or cause to be paid (a) any tax, assessment, charge or levy that is not yet past due, or is being contested in good faith by appropriate proceedings so long as the relevant entity has established and maintains adequate reserves for the payment of the same or (b) any immaterial tax so long as no material Property of Borrower or its Subsidiaries is at impending risk of being seized, levied upon or forfeited.

5.2 Preservation of Existence. Preserve and maintain their

respective existences in the jurisdiction of their formation and all material authorizations, rights, franchises, privileges, consents, approvals, orders, licenses, permits, or registrations from any Governmental Agency that are necessary for the transaction of their respective business and qualify and remain qualified to transact business in each jurisdiction in which such qualification is necessary in view of their respective business or the ownership or leasing of their respective Properties except (a) a merger permitted by

Section 6.3 or as otherwise permitted by this Agreement or (b) where the failure

to so qualify or remain qualified would not constitute a Material Adverse Effect.

5.3 Maintenance of Properties. Maintain, preserve and protect all of

their respective Properties in good order and condition, subject to wear and tear in the ordinary course of business, and not permit any waste of their respective Properties, except that the failure to maintain, preserve and protect

a particular item of Property that is at the end of its useful life or that is not of significant value, either intrinsically or to the operations of Borrower, shall not constitute a violation of this covenant.

5.4 Maintenance of Insurance. Maintain liability, casualty and other

insurance (subject to customary deductibles and retentions) with responsible insurance

companies in such amounts and against such risks as is carried by responsible companies engaged in similar businesses and owning similar assets in the general areas in which Borrower and its Subsidiaries operate.

5.5 Compliance With Laws. Comply with all Requirements of Law

noncompliance with which constitutes a Material Adverse Effect, except that

Borrower and its Subsidiaries need not comply with a Requirement of Law then being contested by any of them in good faith by appropriate proceedings.

5.6 Inspection Rights. Upon reasonable notice, at any time during

regular business hours and as often as reasonably requested (but not so as to materially interfere with the business of Borrower or any of its Subsidiaries) permit the Administrative Agent or any Lender, or any authorized employee, agent or representative thereof, to examine, audit and make copies and abstracts from the records and books of account of, and to visit and inspect the Properties of, Borrower and its Subsidiaries and to discuss the affairs, finances and accounts of Borrower and its Subsidiaries with any of their officers, key employees or (with prior coordination through Borrower) independent accountants.

5.7 Keeping of Records and Books of Account. Keep adequate records

and books of account reflecting all financial transactions in conformity with GAAP, consistently applied, and in material conformity with all applicable requirements of any Governmental Agency having regulatory jurisdiction over Borrower and its Subsidiaries.

5.8 Compliance With Agreements. Promptly and fully comply with all

Contractual Obligations to which any one or more of them is a party, except for

any such Contractual Obligations (a) the performance of which would cause a Default or (b) then being contested by any of them in good faith by appropriate proceedings or (c) if the failure to comply does not constitute a Material Adverse Effect.

5.9 Use of Proceeds. Use the proceeds of all Loans for working

capital and general corporate purposes of Borrower, including repayment of the

Prior Credit Facility, funding of Permitted Acquisitions and the making of Distributions permitted by Section 6.6.

5.10 Hazardous Materials Laws. Keep and maintain all Real Property

and each portion thereof in compliance in all material respects with all applicable Hazardous Materials Laws and promptly notify the Administrative Agent in writing (attaching a copy of any pertinent written material) of (a) any and all material enforcement, cleanup, removal or other governmental or regulatory actions instituted,

completed or threatened in writing by a Governmental Agency pursuant to any applicable Hazardous Materials Laws, (b) any and all material claims made or threatened in writing by any Person against Borrower relating to damage, contribution, cost recovery, compensation, loss or injury resulting from any Hazardous Materials and (c) discovery by any Senior Officer of Borrower of any material occurrence or condition on any real Property adjoining or in the vicinity of such Real Property that could reasonably be expected to cause such Real Property or any part thereof to be subject to any restrictions on the ownership, occupancy, transferability or use of such Real Property under any applicable Hazardous Materials Laws.

5.11 Additional Domestic Subsidiaries. Cause each Domestic

Subsidiary that becomes a Significant Subsidiary after the Closing Date to execute and deliver an appropriate joinder to the Subsidiary Guaranty.

5.12 Syndication Process. Cooperate in such respects as may be

requested by the Arranger in connection with the syndication of the credit facilities under this Agreement, including the provision of information for

inclusion in written materials furnished to prospective syndicate members and the participation by Senior Officers in meetings with prospective syndicate members. Nothing in this Section 5.12 shall obligate Borrower to amend any Loan

Document.

Article 6
NEGATIVE COVENANTS

So long as any Advance remains unpaid, or any other Obligation remains unpaid, or any portion of the Commitments remains in force, Borrower shall not, and shall not permit any of its Subsidiaries to, unless the Administrative Agent (with the written approval of the Requisite Lenders or, if required by Section 11.2, of all of the Lenders) otherwise consents:

6.1 Payment of Subordinated Obligations. Pay any (a) principal

(including sinking fund payments) or any other amount (other than scheduled

interest payments) with respect to any Subordinated Obligation, or purchase or redeem (or offer to purchase or redeem) any Subordinated Obligation, or deposit any monies, securities or other Property with any trustee or other Person to provide assurance that the principal or any portion thereof of any Subordinated Obligation will be paid when due or otherwise to provide for the defeasance of any Subordinated Obligation or (b) scheduled interest on any Subordinated Obligation unless the payment thereof is then permitted pursuant to the terms of

the indenture or other agreement governing such Subordinated Obligation.

6.2 Disposition of Property. Make any Disposition of its Property,

whether now owned or hereafter acquired, except (a) a Disposition by Borrower to

a Wholly-Owned Subsidiary, or by a Subsidiary to Borrower or a Wholly-Owned Subsidiary, (b) the Headquarters Transaction and (c) a Disposition for which the Net Cash Sales Proceeds, when added to the aggregate Net Cash Sales Proceeds of all Dispositions made in that Fiscal Year, do not exceed an amount equal to 2% of consolidated total assets of Borrower and its Subsidiaries as of the commencement of that Fiscal Year.

6.3 Mergers. Merge or consolidate with or into any Person, except

(a) mergers and consolidations of a Subsidiary of Borrower into Borrower or a Subsidiary of Borrower or of Subsidiaries with each other and (b) a merger or consolidation of a Person into Borrower or with or into a Subsidiary of Borrower which constitutes a Permitted Acquisition; provided that (i) Borrower or a

Subsidiary of Borrower is the surviving entity, (ii) no Change in Control results therefrom, (iii) no Default or Event of Default then exists or would result therefrom and (iv) Borrower and each of its Subsidiaries execute such amendments to the Loan Documents as the Administrative Agent may reasonably determine are appropriate as a result of such merger.

6.4 Hostile Acquisitions. Directly or indirectly use the proceeds of

any Loan in connection with the acquisition of part or all of a voting interest
of five percent (5%) or more in any corporation or other business entity if such
acquisition is opposed by the board of directors of such corporation or business
entity.

6.5 Acquisitions. Make any Acquisition, except a Permitted

Acquisition; provided that no Default or Event of Default then exists or would

result therefrom.

6.6 Distributions. Make any Distribution, whether from capital,

income or otherwise, and whether in Cash or other Property, except:

(a) Distributions by any Subsidiary of Borrower to Borrower or
any Wholly-Owned Subsidiary;

(b) dividends on Common Stock or on any other capital stock of
Borrower; provided that no Default or Event of Default then exists or would

result therefrom; and

(c) Stock Repurchases; provided that no Default or Event of

Default then exists or would result therefrom.

6.7 ERISA. At any time, permit any Pension Plan to: (i) engage in

any non-exempt "prohibited transaction" (as defined in Section 4975 of the
Code); (ii) fail to comply with ERISA or any other applicable Laws; (iii) incur
any material "accumulated funding deficiency" (as defined in Section 302 of
ERISA); or (iv) terminate in any manner, which, with respect to each event
listed above, could reasonably be expected to result in a Material Adverse
Effect or (b) withdraw, completely or partially, from any Multiemployer Plan if
to do so could reasonably be expected to result in a Material Adverse Effect.

6.8 Change in Nature of Business. Make any material change in the

nature of the business of Borrower and its Subsidiaries, taken as a whole.

6.9 Liens, Negative Pledges and Sale Leasebacks. Create, incur,

assume or suffer to exist any Lien or Negative Pledge of any nature upon or with
respect to any of their respective Properties, or sell or factor any accounts
receivable or engage in any sale and leaseback transaction with respect to any
of their respective Properties, whether now owned or hereafter acquired, except:

(a) Liens and Negative Pledges existing on the Closing Date and disclosed in Schedule 4.7 and any renewals/extensions or amendments

thereof, provided that the obligations secured or benefited thereby are not

increased;

(b) Liens and Negative Pledges under the Loan Documents;

(c) Permitted Encumbrances;

(d) Liens on Property acquired by Borrower or any of its Subsidiaries that were in existence at the time of the acquisition of such Property and were not created in contemplation of such acquisition;

(e) the Headquarters Transaction;

(f) Dispositions of real Property permitted by Section 6.2(c) and the leaseback of the real Property which is the subject thereof;

(g) Liens on real Property that secure Indebtedness permitted by Section 6.10(d) or Section 6.10(e); and

(h) sales or factoring of accounts receivable by ERC International Company permitted by Section 6.17(e).

6.10 Indebtedness and Guaranty Obligations. Create, incur or assume

any Indebtedness or Guaranty Obligation except:

(a) Indebtedness and Guaranty Obligations existing on the Closing Date and disclosed in Schedule 6.10, and refinancings, renewals, extensions

or amendments that do not increase the amount thereof;

(b) Indebtedness and Guaranty Obligations under the Loan Documents;

(c) Indebtedness and Guaranty Obligations owed to Borrower or any of its Subsidiaries;

(d) Indebtedness consisting of Capital Lease Obligations, or otherwise incurred to finance the purchase or construction of capital assets (which shall be deemed to exist if the Indebtedness is incurred at or within 90 days before or after the purchase or construction of the capital asset), or to

refinance any such Indebtedness, provided that the aggregate principal
amount of such Indebtedness outstanding at any time does not exceed
\$1,000,000;

(e) Indebtedness secured by a Lien on real Property of Borrower
or any of its Subsidiaries that is non-recourse to the credit or assets of
Borrower or any of its Subsidiaries (other than the real Property securing
such Indebtedness); provided that the Requisite Lenders have consented in
advance to the incurrence of such Indebtedness (which consent shall not be
unreasonably, from the perspective of a senior unsecured creditor,
withheld);

(f) Seller Subordinated Notes issued in connection with a
Permitted Acquisition;

(g) Indebtedness consisting of debt securities for which a
portion of the Net Cash Issuance Proceeds will be applied as a mandatory
prepayment pursuant to Section 3.1(f);

(h) Indebtedness consisting of Interest Rate Protection
Agreements;

(i) Indebtedness (including Subordinated Obligations) that is not
secured by a Lien on any Property of Borrower or any of its Subsidiaries;
provided that the aggregate principal amount thereof does not exceed
\$100,000,000 at any time;

(j) Indebtedness of ERC International Company permitted by
Section 6.17(e); and

(k) Guaranty Obligations in support of the obligations of a
Wholly-Owned Subsidiary, provided that such obligations are not prohibited
by this Agreement.

6.11 Transactions with Affiliates. Enter into any transaction of any
kind with any Affiliate of Borrower other than (a) salary, bonus, employee stock
option and other compensation arrangements with directors or officers in the
ordinary course of business or with individuals in connection with a Permitted
Acquisition, (b) transactions that are fully disclosed to the board of directors
(or executive committee thereof) of Borrower and expressly authorized by a
resolution of the board of directors (or executive committee) of Borrower which
is approved by a majority of the directors (or executive committee) not having
an interest in the transaction, (c) transactions between or among Borrower and
its Wholly-Owned Subsidiaries and

(d) transactions on overall terms at least as favorable to Borrower or its Subsidiaries as would be the case in an arm's-length transaction between unrelated parties of equal bargaining power.

6.12 Adjusted Current Ratio. Permit the Adjusted Current Ratio, as

of the last day of any Fiscal Quarter, to be less than the ratio set forth below
opposite the period during which such Fiscal Quarter ends:

Period -----	Ratio -----
Closing Date through December 31, 1999	1.35 to 1.00
January 1, 2000 and thereafter	1.50 to 1.00

6.13 Funded Debt Ratio. Permit the Funded Debt Ratio, as of the last

day of any Fiscal Quarter, to be greater than the ratio set forth below opposite
the period during which such Fiscal Quarter ends:

Period -----	Ratio -----
Closing Date through December 31, 1998	2.00 to 1.00
January 1, 1999 through December 31, 1999	1.75 to 1.00
January 1, 2000 and thereafter	1.50 to 1.00

6.14 Fixed Charge Coverage Ratio. Permit the Fixed Charge Coverage

Ratio, as of the last day of any Fiscal Quarter, to be less than 2.00 to 1.00.

6.15 Stockholders' Equity. Permit Stockholders' Equity, as of the

last day of any Fiscal Quarter, to be less than the sum of (a) \$430,000,000,

plus (b) 50% of Net Income in the Fiscal Quarter ending December 31, 1997 and

each Fiscal Quarter thereafter (with no deduction for a net loss in any such
Fiscal Quarter), plus (c) 50% of the proceeds of any issuance by Borrower of

equity securities subsequent to the Closing Date, and minus (d) any Stock

Repurchase Adjustment.

6.16 Investments. Make or suffer to exist any Investment, other

than:

(a) Investments in existence on the Closing Date and disclosed on
Schedule 6.16;

(b) Investments consisting of Cash Equivalents;

(c) Investments in a Person that is the subject of a Permitted
Acquisition;

(d) Investments consisting of advances to officers, directors and
employees of Borrower and its Subsidiaries for travel, entertainment,
relocation, anticipated bonus and analogous ordinary business purposes;

(e) Investments consisting of loans to employees that do not
exceed \$5,000,000 in the aggregate outstanding at any time;

(f) Investments of Borrower in any Subsidiary of Borrower and
Investments of any such Subsidiary in another Subsidiary;

(g) Investments consisting of the extension of credit to
customers or suppliers of Borrower and its Subsidiaries in the ordinary
course of business and any Investments received in satisfaction or partial
satisfaction thereof;

(h) Investments received in connection with the settlement of a
bona fide dispute with another Person; and

(i) Investments representing all or a portion of the sales price
of Property sold or services provided to another Person.

6.17 Subsidiary Indebtedness. Permit (whether or not otherwise

permitted under Section 6.10) any Subsidiary to create, incur, assume or suffer

to exist any Indebtedness or Guaranty Obligation, except (a) Indebtedness and

Guaranty Obligations in existence on the Closing Date, (b) the Subsidiary
Guaranty, (c) Indebtedness owed to Borrower or another Subsidiary of Borrower,
(d) Capital Lease Obligations and purchase money obligations of a Subsidiary in
respect of Property used by that Subsidiary, (e) Indebtedness of ERC
International Company consisting of the sale or factoring of accounts receivable
not in excess of \$10,000,000 outstanding at any time and (f) other Indebtedness
of a Foreign Subsidiary not in

excess of \$25,000,000 (or the Foreign Currency Equivalent thereof) for each such Foreign Subsidiary or more than \$50,000,000 (or the Foreign Currency Equivalent thereof) for all Foreign Subsidiaries, provided that such Indebtedness is not

secured by a Lien on any Property of such Foreign Subsidiary and is not covered by a Guaranty Obligation of Borrower or any other Subsidiary of Borrower.

6.18 Amendments to Subordinated Obligations. Amend or modify any

term or provision of any indenture, agreement or instrument evidencing or governing any Subordinated Obligation in any respect that will or may adversely affect the interests of the Lenders.

Article 7
INFORMATION AND REPORTING REQUIREMENTS

7.1 Financial and Business Information. So long as any Advance

remains unpaid, or any other Obligation remains unpaid, or any portion of the Commitments remains in force, Borrower shall, unless the Administrative Agent (with the written approval of the Requisite Lenders) otherwise consents, at Borrower's sole expense, deliver to the Administrative Agent for distribution by it to the Lenders, a sufficient number of copies for all of the Lenders of the following:

(a) As soon as practicable, and in any event within 45 days after the end of each Fiscal Quarter (other than the fourth Fiscal Quarter in any Fiscal Year), the consolidated balance sheet of Borrower and its Subsidiaries as at the end of such Fiscal Quarter and the consolidated statements of operations and cash flows for such Fiscal Quarter, and the portion of the Fiscal Year ended with such Fiscal Quarter, all in reasonable detail. Such financial statements shall be certified by the chief financial officer of Borrower as fairly presenting the financial condition, results of operations and cash flows of Borrower and its Subsidiaries in accordance with GAAP (other than footnote disclosures), consistently applied, as at such date and for such periods, subject only to normal year-end accruals and audit adjustments;

(b) As soon as practicable, and in any event within 45 days after the end of each Fiscal Quarter, a Pricing Certificate setting forth a calculation of the Funded Debt Ratio as of the last day of such Fiscal Quarter, and providing reasonable detail as to the calculation thereof, which calculations in the case of the fourth Fiscal Quarter in any Fiscal Year shall be based on the preliminary unaudited financial statements of Borrower and its Subsidiaries for such Fiscal Quarter, and as soon as practicable thereafter, in the event of any material variance in the actual calculation of the Funded Debt Ratio from such preliminary calculation, a revised Pricing Certificate setting forth the actual calculation thereof;

(c) As soon as practicable, and in any event within 90 days after the end of each Fiscal Year, the consolidated balance sheet of Borrower and its Subsidiaries as at the end of such Fiscal Year and the consolidated statements of operations, stockholders' equity and cash flows, in each case of Borrower and its Subsidiaries for such Fiscal Year, all in reasonable detail. Such financial statements shall be prepared in accordance with GAAP, consistently applied, and shall be accompanied by a report of Price

Waterhouse LLP or other independent public accountants of recognized standing selected by Borrower and reasonably satisfactory to the Requisite Lenders, which report shall be prepared in accordance with generally accepted auditing standards as at such date, and shall not be subject to any qualifications or exceptions as to the scope of the audit nor to any other qualification or exception determined by the Requisite Lenders in their good faith business judgment to be adverse to the interests of the Lenders. Such accountants' report shall be accompanied by a certificate stating that, in making the examination pursuant to generally accepted auditing standards necessary for the certification of such financial statements and such report, such accountants have obtained no knowledge of any Default then existing or, if, in the opinion of such accountants, any such Default shall exist, stating the nature and status of such Default, and stating that such accountants have reviewed Borrower's financial calculations as at the end of such Fiscal Year (which shall accompany such certificate) under Sections 6.12 through 6.15, have read such Sections

(including the definitions of all defined terms used therein) and that nothing has come to the attention of such accountants in the course of such examination that would cause them to believe that the same were not calculated by Borrower in the manner prescribed by this Agreement;

(d) As soon as practicable, and in any event within sixty (60) days after the commencement of each Fiscal Year, a budget and projection by Fiscal Quarter for that Fiscal Year and by Fiscal Year for the next two succeeding Fiscal Years, including for the first such Fiscal Year,

projected consolidated balance sheets, statements of operations and statements of cash flow and, for the second and third such Fiscal Years, projected consolidated condensed balance sheets and statements of operations and cash flows of Borrower and its Subsidiaries, all in reasonable detail;

(e) Promptly after request by the Administrative Agent or any Lender, copies of any detailed audit reports, management letters or recommendations submitted to the board of directors (or the audit committee of the board of directors) of Borrower by independent accountants in connection with the accounts or books of Borrower or any of its Subsidiaries, or any audit of any of them;

(f) Promptly after the same are available, and in any event within five (5) Banking Days after filing with the Securities and Exchange Commission, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of Borrower, and copies of all annual, regular, periodic and special reports and registration statements which

Borrower may file or be required to file with the Securities and Exchange Commission under Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, and not otherwise required to be delivered to the Lenders pursuant to other provisions of this Section 7.1;

(g) Promptly after request by the Administrative Agent or any Lender, copies of any other report or other document that was filed by Borrower with any Governmental Agency;

(h) Promptly upon a Senior Officer becoming aware, and in any event within five (5) Banking Days after becoming aware, of the occurrence of any (i) "reportable event" (as such term is defined in Section 4043 of ERISA, but excluding such events as to which the PBGC has by regulation

waived the requirement therein contained that it be notified within thirty days of the occurrence of such event) or (ii) non-exempt "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) involving any Pension Plan or any trust created thereunder, telephonic notice specifying the nature thereof, and, no more than two (2) Banking Days after such telephonic notice, written notice again specifying the nature thereof and specifying what action Borrower is taking or proposes to take with respect thereto, and, when known, any action taken by the Internal Revenue Service with respect thereto;

(i) As soon as practicable, and in any event within two (2) Banking Days after a Senior Officer becomes aware of the existence of any condition or event which constitutes a Default or Event of Default, telephonic notice specifying the nature and period of existence thereof, and, no more than two (2) Banking Days after such telephonic notice, written notice again specifying the nature and period of existence thereof and specifying what action Borrower is taking or proposes to take with respect thereto;

(j) Promptly upon a Senior Officer becoming aware that (i) any Person has commenced a legal proceeding with respect to a claim against Borrower that Borrower reasonably believes is \$5,000,000 or more in excess of the amount thereof that is fully covered by insurance or indemnification agreement of a financially responsible Person, (ii) any creditor under a credit agreement involving Indebtedness of \$1,000,000 or more or any lessor under a material lease involving aggregate rent of \$1,000,000 or more has asserted a material default thereunder on the part of Borrower or, (iii) any Person has commenced a legal proceeding with respect to a claim against Borrower under a contract that is not a credit agreement or material lease with respect to a claim

of in excess of \$1,000,000 or which otherwise may reasonably be expected to result in a Material Adverse Effect, a written notice describing the pertinent facts relating thereto and what action Borrower is taking or proposes to take with respect thereto; and

(k) Such other data and information as from time to time may be reasonably requested by the Administrative Agent, any Lender (through the Administrative Agent) or the Requisite Lenders.

7.2 Compliance Certificates. So long as any Advance remains unpaid,

or any other Obligation remains unpaid or unperformed, or any portion of the Commitments remains outstanding, Borrower shall, at Borrower's sole expense, deliver to the Administrative Agent for distribution by it to the Lenders concurrently with the financial statements required pursuant to Sections 7.1(a)

and 7.1(d), a Compliance Certificate signed by a Senior Officer.

Article 8
CONDITIONS

8.1 Initial Advances. The obligation of each Lender to make the initial Advance to be made by it, and the obligation of the Issuing Lender to issue the initial Letter of Credit, is subject to the following conditions precedent, each of which shall be satisfied prior to the making of the initial Advances (unless all of the Lenders, in their sole and absolute discretion, shall agree otherwise):

(a) The Administrative Agent shall have received all of the following, each of which shall be originals unless otherwise specified, each properly executed by a Responsible Official of each party thereto, each dated as of the Closing Date and each in form and substance satisfactory to the Administrative Agent and its legal counsel (unless otherwise specified or, in the case of the date of any of the following, unless the Administrative Agent otherwise agrees or directs):

(1) at least one (1) executed counterpart of this Agreement, together with arrangements satisfactory to the Administrative Agent for additional executed counterparts, sufficient in number for distribution to the Lenders and Borrower;

(2) Line A Notes executed by Borrower in favor of each Lender, each in a principal amount equal to that Lender's Pro Rata Share of the Line A Commitment;

(3) Line B Notes executed by Borrower in favor of each Lender, each in a principal amount equal to that Lender's Pro Rata Share of the Line B Commitment;

(4) the Subsidiary Guaranty executed by each Subsidiary Guarantor;

(5) with respect to Borrower and the Subsidiary Guarantors, such documentation as the Administrative Agent may reasonably require to establish the due organization, valid existence and good standing of Borrower and the Subsidiary Guarantors, their qualification to engage in business in each material jurisdiction in which they are engaged in business or required to be so qualified, their authority to execute, deliver and perform the Loan Documents to which

it is a Party, the identity, authority and capacity of each Responsible Official thereof authorized to act on their behalf, including certified copies of articles of incorporation and

amendments thereto, bylaws and amendments thereto, certificates of good standing and/or qualification to engage in business, tax clearance certificates, certificates of corporate resolutions, incumbency certificates, Certificates of Responsible Officials, and the like;

(6) the Opinion of Counsel;

(7) a Certificate of the chief financial officer of Borrower certifying that the representation contained in Section 4.17 is, to

the best of his or her knowledge, true and correct;

(8) a Certificate of the chief financial officer of Borrower certifying that the conditions specified in Sections 8.1(f) and 8.1(g)

have, to the best of his or her knowledge, been satisfied; and

(9) such other assurances, certificates, documents, consents or opinions as the Administrative Agent or the Requisite Lenders reasonably may require.

(b) The arrangement fee payable pursuant to Section 3.2 shall

have been paid.

(c) Any agency fees payable on the Closing Date pursuant to Section 3.4 shall have been paid.

(d) All Indebtedness outstanding under the Prior Credit Agreement shall have been (or shall concurrently be) paid and the same shall have been (or shall concurrently be) terminated.

(e) The reasonable costs and expenses of the Administrative Agent in connection with the preparation of the Loan Documents payable pursuant to Section 11.3, and invoiced to Borrower prior to the Closing Date, shall

have been paid.

(f) The representations and warranties of Borrower contained in Article 4 shall be true and correct in all material respects.

(g) Borrower and any other Parties shall be in compliance with all the terms and provisions of the Loan Documents, and giving effect to the initial Advance, no Default or Event of Default shall have occurred and be continuing.

(h) All legal matters relating to the Loan Documents shall be satisfactory to Sheppard, Mullin, Richter & Hampton LLP, special counsel to the Administrative Agent.

(i) The Closing Date shall have occurred on or before February 5, 1998.

8.2 Any Advance, Etc. The obligation of each Lender to make any

Advance, and the obligation of the Issuing Lender to issue any Letter of Credit, is subject to the following conditions precedent (unless the Requisite Lenders or, in any case where the approval of all of the Lenders is required pursuant to Section 11.2, all of the Lenders, in their sole and absolute discretion, shall agree otherwise):

(a) except (i) for representations and warranties which expressly speak as of a particular date or are no longer true and correct as a result of a change which is permitted by this Agreement or (ii) as disclosed by Borrower and approved in writing by the Requisite Lenders, the representations and warranties contained in Article 4 (other than Sections 4.4(a), 4.6 (first sentence), 4.10 and 4.17) shall be true and correct in all material respects on and as of the date of the Advance as though made on that date;

(b) no circumstance or event shall have occurred that constitutes a Material Adverse Effect since the Closing Date;

(c) other than matters described in Schedule 4.10 or not required as of the Closing Date to be therein described, there shall not be then pending or threatened any action, suit, proceeding or investigation against or affecting Borrower or any of its Subsidiaries or any Property of any of them before any Governmental Agency that constitutes a Material Adverse Effect;

(d) the Administrative Agent shall have timely received a Request for Loan in compliance with Article 2 (or telephonic or other request for Loan referred to in the second sentence of Section 2.1(d), if applicable), or Request for Letter of Credit (as applicable), in compliance with Article 2; and

the Administrative Agent shall have received, in form and substance satisfactory to the Administrative Agent, such other assurances, certificates, documents or consents related to the foregoing as the Administrative Agent or Requisite Lenders reasonably may require.

Article 9
EVENTS OF DEFAULT AND REMEDIES UPON EVENT OF DEFAULT

9.1 Events of Default. The existence or occurrence of any one or

more of the following events, whatever the reason therefor and under any
circumstances whatsoever, shall constitute an Event of Default:

(a) Borrower fails to pay any principal on any of the Notes, or
any portion thereof, on the date when due; or

(b) Borrower fails to pay any interest on any of the Notes, or
any fees under Sections 3.3, 3.4 or 3.5, or any portion thereof, within two

(2) Banking Days after the date when due; or fails to pay any other fee or
amount payable to the Lenders under any Loan Document, or any portion
thereof, within two (2) Banking Days after demand therefor; or

(c) Borrower fails to comply with any of the covenants contained
in Article 6; or

(d) Borrower fails to comply with Section 7.1(i) in any respect

that is materially adverse to the interests of the Lenders; or

(e) Borrower or any other Party fails to perform or observe any
other covenant or agreement (not specified in clause (a), (b), (c) or (d)
above) contained in any Loan Document on its part to be performed or
observed within twenty (20) Banking Days after the giving of notice by the
Administrative Agent on behalf of the Requisite Lenders of such Default or,
if such Default is not reasonably susceptible of cure within such period,
within such longer period as is reasonably necessary to effect a cure so
long as such Borrower or such Party continues to diligently pursue cure of
such Default but not in any event in excess of forty (40) Banking Days; or

(f) Any representation or warranty of Borrower or a Subsidiary
Guarantor made in any Loan Document, or in any certificate or other writing
delivered by Borrower or such Subsidiary Guarantor pursuant to any Loan
Document, proves to have been incorrect when made or reaffirmed in any
respect that is materially adverse to the interests of the Lenders; or

(g) Borrower (i) fails to pay the principal, or any principal
installment, of any present or future Indebtedness of \$5,000,000 or more,
or any

guaranty of present or future Indebtedness of \$5,000,000 or more, on its part to be paid, when due (or within any stated grace period), whether at the stated maturity, upon acceleration, by reason of required prepayment or otherwise or (ii) fails to perform or observe any other term, covenant or agreement on its part to be performed or observed, or suffers any event of default to occur, in connection with any present or future Indebtedness of \$5,000,000 or more, or of any guaranty of present or future Indebtedness of \$5,000,000 or more, if as a result of such failure or sufferance any holder or holders thereof (or an agent or trustee on its or their behalf) has the right to declare such Indebtedness due before the date on which it otherwise would become due or the right to require Borrower to redeem or purchase, or offer to redeem or purchase, all or any portion of such Indebtedness; or

(h) Any Loan Document, at any time after its execution and delivery and for any reason other than the agreement or action (or omission -----
to act) of the Administrative Agent or the Lenders or satisfaction in full of all the Obligations, ceases to be in full force and effect or is declared by a court of competent jurisdiction to be null and void, invalid or unenforceable in any respect which is materially adverse to the interests of the Lenders; or any Party thereto denies in writing that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind same; or

(i) A final judgment against Borrower or any Subsidiary Guarantor is entered for the payment of money in excess of \$1,000,000 (not covered by insurance or for which an insurer has reserved its rights) and, absent procurement of a stay of execution, such judgment remains unsatisfied for thirty (30) calendar days after the date of entry of judgment, or in any event later than five (5) days prior to the date of any proposed sale thereunder; or any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the Property of any such Person and is not released, vacated or fully bonded within thirty (30) calendar days after its issue or levy; or

(j) Borrower or any Subsidiary Guarantor institutes or consents to the institution of any proceeding under a Debtor Relief Law relating to it or to all or any material part of its Property, or is unable or admits in writing its inability to pay its debts as they mature, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its Property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is

appointed without the application or consent of that Person and the appointment continues undischarged or unstayed for sixty (60) calendar days; or any proceeding under a Debtor Relief Law relating to any such Person or to all or any part of its Property is instituted without the consent of that Person and continues undismissed or unstayed for sixty (60) calendar days; or

(k) The occurrence of an Event of Default (as such term is or may hereafter be specifically defined in any other Loan Document) under any other Loan Document; or

(l) Any holder of a Subordinated Obligation asserts in writing that such Subordinated Obligation is not subordinated to the Obligations in accordance with its terms and Borrower does not promptly deny in writing such assertion and contest any attempt by such holder to take action based on such assertion; or

(m) Any Pension Plan maintained by Borrower is finally determined by the PBGC to have a material "accumulated funding deficiency" as that term is defined in Section 302 of ERISA in excess of an amount equal to 5% of the consolidated total assets of Borrower as of the most-recently ended Fiscal Quarter.

9.2 Remedies Upon Event of Default. Without limiting any other

rights or remedies of the Administrative Agent or the Lenders provided for elsewhere in this Agreement, or the other Loan Documents, or by applicable Law, or in equity, or otherwise:

(a) Upon the occurrence, and during the continuance, of any Event of Default other than an Event of Default described in Section 9.1(j):

(1) the Commitments to make Advances and all other obligations of the Administrative Agent or the Lenders and all rights of Borrower and any other Parties under the Loan Documents shall be suspended without notice to or demand upon Borrower, which are expressly waived by Borrower, except that all of the Lenders or the

Requisite Lenders (as the case may be, in accordance with Section

11.2) may waive an Event of Default or, without waiving, determine,

upon terms and conditions satisfactory to the Lenders or Requisite Lenders, as the case may be, to reinstate the Commitments and such other obligations and rights and make further Advances, which waiver or determination shall apply equally to, and shall be binding upon, all the Lenders;

(2) the Issuing Lender may, with the approval of the Administrative Agent on behalf of the Requisite Lenders, demand immediate payment by Borrower of an amount equal to the aggregate amount of all outstanding Letters of Credit to be held by the Issuing Lender in an interest-bearing cash collateral account as collateral hereunder; and

(3) the Requisite Lenders may request the Administrative Agent to, and the Administrative Agent thereupon shall, terminate the Commitments and/or declare all or any part of the unpaid principal of all Notes, all interest accrued and unpaid thereon and all other amounts payable under the Loan Documents to be forthwith due and payable, and shall notify Borrower thereof, whereupon the same shall become and be forthwith due and payable, without protest, presentment, notice of dishonor, demand or further notice of any kind, all of which are expressly waived by Borrower.

(b) Upon the occurrence of any Event of Default described in Section 9.1(j):

(1) the Commitments to make Advances and all other obligations of the Administrative Agent or the Lenders and all rights of Borrower and any other Parties under the Loan Documents shall terminate without notice to or demand upon Borrower, which are expressly waived by Borrower, except that all of the Lenders may waive

the Event of Default or, without waiving, determine, upon terms and conditions satisfactory to all the Lenders, to reinstate the Commitments and such other obligations and rights and make further Advances, which determination shall apply equally to, and shall be binding upon, all the Lenders;

(2) an amount equal to the aggregate amount of all outstanding Letters of Credit shall be immediately due and payable to the Issuing Lender without notice to or demand upon Borrower, which are expressly waived by Borrower, to be held by the Issuing Lender in an interest-bearing cash collateral account as collateral hereunder; and

(3) the unpaid principal of all Notes, all interest accrued and unpaid thereon and all other amounts payable under the Loan Documents shall be forthwith due and payable, without protest,

presentment, notice of dishonor, demand or further notice of any kind, all of which are expressly waived by Borrower.

(c) Upon the occurrence of any Event of Default, the Lenders and the Administrative Agent, or any of them, without notice to (except as

expressly provided for in any Loan Document) or demand upon Borrower, which are expressly waived by Borrower (except as to notices expressly provided

for in any Loan Document), may proceed (but only with the consent of the Requisite Lenders) to protect, exercise and enforce their rights and remedies under the Loan Documents against Borrower and any other Party and such other rights and remedies as are provided by Law or equity.

(d) The order and manner in which the Lenders' rights and remedies are to be exercised shall be determined by the Requisite Lenders in their sole discretion, and all payments received by the Administrative Agent and the Lenders, or any of them, shall be applied first to the costs and expenses (including reasonable attorneys' fees and disbursements and the reasonably allocated costs of attorneys employed by the Administrative Agent or by any Lender) of the Administrative Agent and of the Lenders, and thereafter paid pro rata to the Lenders in the same proportions that the aggregate Obligations owed to each Lender under the Loan Documents bear to the aggregate Obligations owed under the Loan Documents to all the Lenders, without priority or preference among the Lenders. Regardless of how each Lender may treat payments for the purpose of its own accounting, for the purpose of computing Borrower's Obligations hereunder and under the Notes, payments shall be applied first, to the costs and expenses of the

Administrative Agent and the Lenders, as set forth above, second, to the

payment of accrued and unpaid interest due under any Loan Documents to and including the date of such application (ratably, and without duplication, according to the accrued and unpaid interest due under each of the Loan Documents), and third, to the payment of all other amounts (including

principal and fees) then owing to the Administrative Agent or the Lenders under the Loan Documents. No application of payments will cure any Event of Default, or prevent acceleration, or continued acceleration, of amounts payable under the Loan Documents, or prevent the exercise, or continued exercise, of rights or remedies of the Lenders hereunder or thereunder or at Law or in equity.

Article 10
THE ADMINISTRATIVE AGENT

10.1 Appointment and Authorization. Subject to Section 10.8, each

Lender hereby irrevocably appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Administrative Agent by the terms thereof or are reasonably incidental, as determined by the Administrative Agent, thereto. This appointment and authorization is intended solely for the purpose of facilitating the servicing of the Loans and does not constitute appointment of the Administrative Agent as trustee for any Lender or as representative of any Lender for any other purpose and, except as specifically set forth in the

Loan Documents to the contrary, the Administrative Agent shall take such action and exercise such powers only in an administrative and ministerial capacity.

10.2 Administrative Agent and Affiliates. Wells Fargo Bank, National

Association (and each successor Administrative Agent) has the same rights and powers under the Loan Documents as any other Lender and may exercise the same as though it were not the Administrative Agent, and the term "Lender" or "Lenders" includes Wells Fargo Bank, National Association in its individual capacity. Wells Fargo Bank, National Association (and each successor Administrative Agent) and its Affiliates may accept deposits from, lend money to and generally engage in any kind of banking, trust or other business with Borrower, any Subsidiary thereof, or any Affiliate of Borrower or any Subsidiary thereof, as if it were not the Administrative Agent and without any duty to account therefor to the Lenders. Wells Fargo Bank, National Association (and each successor Administrative Agent) need not account to any other Lender for any monies received by it for reimbursement of its costs and expenses as Administrative Agent hereunder, or (subject to Section 11.10) for any monies received by it in

its capacity as a Lender hereunder. The Administrative Agent shall not be deemed to hold a fiduciary relationship with any Lender and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent.

10.3 Proportionate Interest in any Collateral. The Administrative

Agent, on behalf of all the Lenders, shall hold in accordance with the Loan Documents all items of any collateral or interests therein received or held by the Administrative Agent. Subject to the Administrative Agent's and the Lenders' rights to reimbursement for their costs and expenses hereunder

(including reasonable attorneys' fees and disbursements and other professional

services and the reasonably allocated costs of attorneys employed by the Administrative Agent or a Lender) and subject to the

application of payments in accordance with Section 9.2(d), each Lender shall

have an interest in the Lenders' interest in such collateral or interests therein in the same proportions that the aggregate Obligations owed such Lender under the Loan Documents bear to the aggregate Obligations owed under the Loan Documents to all the Lenders, without priority or preference among the Lenders.

10.4 Lenders' Credit Decisions. Each Lender agrees that it has,

independently and without reliance upon the Administrative Agent, any other Lender or the directors, officers, agents, employees or attorneys of the Administrative Agent or of any other Lender, and instead in reliance upon information supplied to it by or on behalf of Borrower and upon such other information as it has deemed appropriate, made its own independent credit analysis and decision to enter into this Agreement. Each Lender also agrees that it shall, independently and without reliance upon the Administrative Agent, any other Lender or the directors, officers, agents, employees or attorneys of the Administrative Agent or of any other Lender, continue to make its own independent credit analyses and decisions in acting or not acting under the Loan Documents.

10.5 Action by Administrative Agent.

(a) Absent actual knowledge of the Administrative Agent of the existence of a Default, the Administrative Agent may assume that no Default has occurred and is continuing, unless the Administrative Agent (or the Lender that is then the Administrative Agent) has received notice from Borrower stating the nature of the Default or has received notice from a Lender stating the nature of the Default and that such Lender considers the Default to have occurred and to be continuing.

(b) The Administrative Agent has only those obligations under the Loan Documents as are expressly set forth therein.

(c) Except for any obligation expressly set forth in the Loan Documents and as long as the Administrative Agent may assume that no Event of Default has occurred and is continuing, the Administrative Agent may, but shall not be required to, exercise its discretion to act or not act,

except that the Administrative Agent shall be required to act or not act

upon the instructions of the Requisite Lenders (or of all the Lenders, to the extent required by Section 11.2) and those instructions shall be

binding upon the Administrative Agent and all the Lenders, provided that

the Administrative Agent shall not be required to act or not act if to do so would be contrary to any Loan Document or to applicable Law or would result, in the reasonable judgment of the

Administrative Agent, in substantial risk of liability to the Administrative Agent.

(d) If the Administrative Agent has received a notice specified in clause (a), the Administrative Agent shall immediately give notice thereof to the Lenders and shall act or not act upon the instructions of the Requisite Lenders (or of all the Lenders, to the extent required by Section 11.2), provided that the Administrative Agent shall not be required to act or not act if to do so would be contrary to any Loan Document or to applicable Law or would result, in the reasonable judgment of the Administrative Agent, in substantial risk of liability to the Administrative Agent, and except that if the Requisite Lenders (or all the Lenders, if required under Section 11.2) fail, for five (5) Banking Days after the receipt of notice from the Administrative Agent, to instruct the Administrative Agent, then the Administrative Agent, in its sole discretion, may act or not act as it deems advisable for the protection of the interests of the Lenders.

(e) The Administrative Agent shall have no liability to any Lender for acting, or not acting, as instructed by the Requisite Lenders (or all the Lenders, if required under Section 11.2), notwithstanding any other provision hereof.

10.6 Liability of Administrative Agent. Neither the Administrative

Agent nor any of its directors, officers, agents, employees or attorneys shall be liable for any action taken or not taken by them under or in connection with the Loan Documents, except for their own gross negligence or willful misconduct.

Without limitation on the foregoing, the Administrative Agent and its directors, officers, agents, employees and attorneys:

(a) May treat the payee of any Note as the holder thereof until the Administrative Agent receives notice of the assignment or transfer thereof, in form satisfactory to the Administrative Agent, signed by the payee, and may treat each Lender as the owner of that Lender's interest in the Obligations for all purposes of this Agreement until the Administrative Agent receives notice of the assignment or transfer thereof, in form satisfactory to the Administrative Agent, signed by that Lender;

(b) May consult with legal counsel (including in-house legal counsel), accountants (including in-house accountants) and other professionals or experts selected by it, or with legal counsel, accountants or other professionals or experts for Borrower and/or their Subsidiaries or the Lenders,

and shall not be liable for any action taken or not taken by it in good faith in accordance with any advice of such legal counsel, accountants or other professionals or experts;

(c) Shall not be responsible to any Lender for any statement, warranty or representation made in any of the Loan Documents or in any notice, certificate, report, request or other statement (written or oral) given or made in connection with any of the Loan Documents;

(d) Except to the extent expressly set forth in the Loan Documents, shall have no duty to ask or inquire as to the performance or observance by Borrower or its Subsidiaries of any of the terms, conditions or covenants of any of the Loan Documents or to inspect any collateral or any Property, books or records of Borrower or their Subsidiaries;

(e) Will not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, effectiveness, sufficiency or value of any Loan Document, any other instrument or writing furnished pursuant thereto or in connection therewith, or any collateral;

(f) Will not incur any liability by acting or not acting in reliance upon any Loan Document, notice, consent, certificate, statement, request or other instrument or writing believed in good faith by it to be genuine and signed or sent by the proper party or parties; and

(g) Will not incur any liability for any arithmetical error in computing any amount paid or payable by Borrower or any Subsidiary or Affiliate thereof or paid or payable to or received or receivable from any Lender under any Loan Document, including, without limitation, principal, interest, commitment fees, Advances and other amounts; provided that, promptly upon discovery of such an error in computation, the Administrative Agent, the Lenders and (to the extent applicable) Borrower and/or its Subsidiaries or Affiliates shall make such adjustments as are necessary to correct such error and to restore the parties to the position that they would have occupied had the error not occurred.

10.7 Indemnification. Each Lender shall, ratably in accordance with its Pro Rata Share of the Commitments (if the Commitments are then in effect) or in accordance with its proportion of the aggregate Indebtedness then evidenced by the Notes (if the Commitments have then been terminated), indemnify and hold the Administrative Agent and its directors, officers, agents, employees and attorneys

harmless against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever (including reasonable attorneys' fees and

disbursements and allocated costs of attorneys employed by the Administrative Agent) that may be imposed on, incurred by or asserted against it or them in any way relating to or arising out of the Loan Documents (other than losses incurred by reason of the failure of Borrower to pay the Indebtedness represented by the Notes) or any action taken or not taken by it as Administrative Agent thereunder, except such as result from its own gross negligence or willful

misconduct. Without limitation on the foregoing, each Lender shall reimburse the Administrative Agent upon demand for that Lender's Pro Rata Share of any out-of-pocket cost or expense incurred by the Administrative Agent in connection with the negotiation, preparation, execution, delivery, amendment, waiver, restructuring, reorganization (including a bankruptcy reorganization),

enforcement or attempted enforcement of the Loan Documents, to the extent that Borrower or any other Party is required by Section 11.3 to pay that cost or

expense but fails to do so upon demand. Nothing in this Section 10.7 shall

entitle the Administrative Agent or any indemnitee referred to above to recover any amount from the Lenders if and to the extent that such amount has theretofore been recovered from Borrower or any of its Subsidiaries. To the extent that the Administrative Agent or any indemnitee referred to above is later reimbursed such amount by Borrower or any of its Subsidiaries, it shall return the amounts paid to it by the Lenders in respect of such amount.

10.8 Successor Administrative Agent. The Administrative Agent may,

and at the request of the Requisite Lenders shall, resign as Administrative Agent upon reasonable notice to the Lenders and Borrower effective upon acceptance of appointment by a successor Administrative Agent. If the Administrative Agent shall resign as Administrative Agent under this Agreement, the Requisite Lenders shall appoint from among the Lenders a successor Administrative Agent for the Lenders, which successor Administrative Agent shall be approved by Borrower (and such approval shall not be unreasonably withheld or delayed). If no successor Administrative Agent is appointed prior to the effective date of the resignation of the Administrative Agent, the Administrative Agent may appoint, after consulting with the Lenders and Borrower, a successor Administrative Agent from among the Lenders. Upon the acceptance of its appointment as successor Administrative Agent hereunder, such successor Administrative Agent shall succeed to all the rights, powers and duties of the retiring Administrative Agent and the term "Administrative Agent" shall mean such successor Administrative Agent and the retiring Administrative Agent's appointment, powers and duties as Administrative Agent shall be terminated. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article 10, and Sections 11.3,

11.11 and 11.22, shall inure to its benefit as to any actions taken or omitted

to be taken by it while it was Administrative

Agent under this Agreement. Notwithstanding the foregoing, if (a) the Administrative Agent has not been paid its agency fees under Section 3.5 or has

not been reimbursed for any expense reimbursable to it under Section 11.3, in

either case for a period of at least one (1) year and (b) no successor Administrative Agent has accepted appointment as Administrative Agent by the date which is thirty (30) days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Requisite Lenders appoint a successor Administrative Agent as provided for above.

10.9 No Obligations of Borrower. Nothing contained in this Article

10 shall be deemed to impose upon Borrower any obligation in respect of the due and punctual performance by the Administrative Agent of its obligations to the Lenders under any provision of this Agreement, and Borrower shall have no liability to the Administrative Agent or any of the Lenders in respect of any failure by the Administrative Agent or any Lender to perform any of its obligations to the Administrative Agent or the Lenders under this Agreement. Without limiting the generality of the foregoing, where any provision of this Agreement relating to the payment of any amounts due and owing under the Loan Documents provides that such payments shall be made by Borrower to the Administrative Agent for the account of the Lenders, Borrower's obligations to the Lenders in respect of such payments shall be deemed to be satisfied upon the making of such payments to the Administrative Agent in the manner provided by this Agreement.

Article 11
MISCELLANEOUS

11.1 Cumulative Remedies; No Waiver. The rights, powers, privileges

and remedies of the Administrative Agent and the Lenders provided herein or in any Note or other Loan Document are cumulative and not exclusive of any right, power, privilege or remedy provided by Law or equity. No failure or delay on the part of the Administrative Agent or any Lender in exercising any right, power, privilege or remedy may be, or may be deemed to be, a waiver thereof; nor may any single or partial exercise of any right, power, privilege or remedy preclude any other or further exercise of the same or any other right, power, privilege or remedy. The terms and conditions of Article 8 hereof are inserted

for the sole benefit of the Administrative Agent and the Lenders; the same may be waived in whole or in part, with or without terms or conditions, in respect of any Loan without prejudicing the Administrative Agent's or the Lenders' rights to assert them in whole or in part in respect of any other Loan.

11.2 Amendments; Consents. No amendment, modification, supplement,

extension, termination or waiver of any provision of this Agreement or any other Loan Document, no approval or consent thereunder, and no consent to any departure by Borrower or any other Party therefrom, may in any event be effective unless in writing signed by the Administrative Agent with the written approval of the Requisite Lenders (and, in the case of any amendment, modification or supplement of or to any Loan Document to which Borrower is a Party, signed by Borrower, and, in the case of any amendment, modification or supplement to Article 10, signed by the Administrative Agent), and then only in

the specific instance and for the specific purpose given; and, without the approval in writing of all the Lenders, no amendment, modification, supplement, termination, waiver or consent may be effective:

(a) To amend or modify the principal of, or the amount of principal, principal prepayments or the rate of interest payable on, any Note, or the amount of the Commitments or the Pro Rata Share of any Lender or the amount of any commitment fee payable to any Lender, or any other fee or amount payable to any Lender under the Loan Documents or to waive an Event of Default consisting of the failure of Borrower to pay when due principal, interest or any fee;

(b) To postpone any date fixed for any payment of principal of, prepayment of principal of or any installment of interest on, any Note or any installment of any fee, or to extend the term of the Commitments;

(c) To amend the provisions of the definition of "Requisite Lenders", "Line A Maturity Date" or "Line B Maturity Date"; or

(d) To release any Subsidiary Guarantor from its obligations under the Subsidiary Guaranty; or

(e) To amend or waive Article 8 or this Section 11.2; or

(f) To amend any provision of this Agreement that expressly requires the consent or approval of all the Lenders.

Borrower may conclusively rely on a written statement by the Administrative Agent to the effect that it has received the written approval of the Requisite Lenders, or of all of the Lenders, to a waiver or amendment of any Loan Document. Any amendment, modification, supplement, termination, waiver or consent pursuant to this Section 11.2 shall apply equally to, and shall be binding upon, all the Lenders and the Administrative Agent.

11.3 Costs, Expenses and Taxes. Borrower shall pay within five (5)

Banking Days after demand, accompanied by an invoice therefor, the reasonable costs and expenses of the Administrative Agent in connection with the negotiation, preparation, syndication, execution and delivery of the Loan Documents and any amendment thereto or waiver thereof. Borrower shall also pay on demand, accompanied by an invoice therefor, the reasonable costs and expenses of the Administrative Agent and the Lenders in connection with the refinancing, restructuring, reorganization (including a bankruptcy reorganization of Borrower

or any of its Subsidiaries) and enforcement or attempted enforcement of the Loan Documents, and any matter related thereto. The foregoing costs and expenses shall include any applicable filing fees, recording fees, title insurance fees, appraisal fees, search fees, and other out-of-pocket expenses and the reasonable fees and out-of-pocket expenses of any legal counsel (including reasonably

allocated costs of legal counsel employed by the Administrative Agent or any Lender), independent public accountants and other outside experts retained by the Administrative Agent or any Lender, whether or not such costs and expenses are incurred or suffered by the Administrative Agent or any Lender in connection with or during the course of any bankruptcy or insolvency proceedings of any of Borrower or any Subsidiary thereof. Borrower shall pay any and all documentary and other taxes, excluding (i) taxes imposed on or measured in whole or in part

by a Lender's overall net income imposed on it by (A) any jurisdiction (or political subdivision thereof) in which it is organized or maintains its principal office or Eurodollar Lending Office or (B) any jurisdiction

(or political subdivision thereof) in which it is "doing business" or (ii) any withholding taxes or other taxes based on gross income imposed by the United States of America for any period with respect to which it has failed to provide Borrower with the appropriate form or forms required by Section 11.21, to the

extent such forms are then required by applicable Laws, and all costs, expenses, fees and charges payable or determined to be payable in connection with the filing or recording of this Agreement, any other Loan Document or any other instrument or writing to be delivered hereunder or thereunder, or in connection with any transaction pursuant hereto or thereto, and shall reimburse, hold harmless and indemnify on the terms set forth in 11.11 the Administrative Agent

and the Lenders from and against any and all loss, liability or legal or other expense with respect to or resulting from any delay in paying or failure to pay any such tax, cost, expense, fee or charge or that any of them may suffer or incur by reason of the failure of any Party to perform any of its Obligations. Any amount payable to the Administrative Agent or any Lender under this Section

11.3 shall bear interest from the fifth Banking Day following the date of demand

for payment at the Default Rate.

11.4 Nature of Lenders' Obligations. The obligations of the Lenders

hereunder are several and not joint or joint and several. Nothing contained in this Agreement or any other Loan Document and no action taken by the Administrative Agent or the Lenders or any of them pursuant hereto or thereto may, or may be deemed to, make the Lenders a partnership, an association, a joint venture or other entity, either among themselves or with the Borrower or any Affiliate of any of Borrower. A default by any Lender will not increase the Pro Rata Share of the Commitments attributable to any other Lender. Any Lender not in default may, if it desires, assume in such proportion as the nondefaulting Lenders agree the obligations of any Lender in default, but is not obligated to do so. The Administrative Agent agrees that it will use its best efforts either to induce promptly the other Lenders to assume the obligations of a Lender in default or to obtain promptly another Lender, reasonably satisfactory to Borrower, to replace such a Lender in default.

11.5 Survival of Representations and Warranties. All representations

and warranties contained herein or in any other Loan Document, or in any certificate or other writing delivered by or on behalf of any one or more of the Parties to any Loan Document, will survive the making of the Loans hereunder and the execution and delivery of the Notes, and have been or will be relied upon by the Administrative Agent and each Lender, notwithstanding any investigation made by the Administrative Agent or any Lender or on their behalf.

11.6 Notices. Except as otherwise expressly provided in the Loan

Documents, all notices, requests, demands, directions and other communications

provided for hereunder or under any other Loan Document must be in writing and must be mailed, telegraphed, telecopied, dispatched by commercial courier or delivered to the appropriate party at the address set forth on the signature pages of this Agreement or other applicable Loan Document or, as to any party to any Loan Document, at any other address as may be designated by it in a written notice sent to all other parties to such Loan Document in accordance with this Section. Except as otherwise expressly provided in any Loan Document, if any

notice, request, demand, direction or other communication required or permitted by any Loan Document is given by mail it will be effective on the earlier of receipt or the fourth Banking Day after deposit in the United States mail with first class or airmail postage prepaid; if given by telegraph or cable, when delivered to the telegraph company with charges prepaid; if given by telecopier, when sent; if dispatched by commercial courier, on the scheduled delivery date; or if given by personal delivery, when delivered.

11.7 Execution of Loan Documents. Unless the Administrative Agent

otherwise specifies with respect to any Loan Document, (a) this Agreement and any other Loan Document may be executed in any number of counterparts and any party hereto or thereto may execute any counterpart, each of which when executed and delivered will be deemed to be an original and all of which counterparts of this Agreement or any other Loan Document, as the case may be, when taken together will be deemed to be but one and the same instrument and (b) execution of any such counterpart may be evidenced by a telecopier transmission of the signature of such party. The execution of this Agreement or any other Loan Document by any party hereto or thereto will not become effective until counterparts hereof or thereof, as the case may be, have been executed by all the parties hereto or thereto.

11.8 Binding Effect; Assignment.

(a) This Agreement and the other Loan Documents to which Borrower is a Party will be binding upon and inure to the benefit of Borrower, the Administrative Agent, each of the Lenders, and their respective successors and assigns, except that Borrower may not assign its rights hereunder or

thereunder or any interest herein or therein without the prior written consent of all the Lenders. Each Lender represents that it is not acquiring its Note with a view to the distribution thereof within the meaning of the Securities Act of 1933, as amended (subject to any requirement that disposition of such Note must be within the control of such Lender). Any Lender may at any time pledge any of its Notes or any other instrument evidencing its rights as a Lender under this Agreement to a Federal Reserve Bank, but no such pledge shall release that Lender from its obligations hereunder or grant to such Federal Reserve Bank the rights of a Lender hereunder absent foreclosure of such pledge.

(b) From time to time following the Closing Date, each Lender may assign to one or more Eligible Assignees all or any portion of its Pro Rata Share of the Commitments; provided that (i) such Eligible Assignee, if not

then a Lender or an Affiliate of the assigning Lender, shall be approved by the Administrative Agent and (if no Event of Default then exists) Borrower (neither of which approvals shall be unreasonably withheld or delayed), (ii) such assignment shall be evidenced by a Commitments Assignment and Acceptance, a copy of which shall be furnished to the Administrative Agent as hereinbelow provided, (iii) except in the case of an assignment to an

Affiliate of the assigning Lender, to another Lender or of the entire remaining Commitments of the assigning Lender, the assignment shall not assign a Pro Rata Share of the Commitments that is equivalent to less than \$10,000,000 and (iv) the effective date of any such assignment shall be as specified in the Commitments Assignment and Acceptance, but not earlier than the date which is five (5) Banking Days after the date the Administrative Agent has received the Commitments Assignment and Acceptance. Upon the effective date of such Commitments Assignment and Acceptance, the Eligible Assignee named therein shall be a Lender for all purposes of this Agreement, with the Pro Rata Share of the Commitments therein set forth and, to the extent of such Pro Rata Share, the assigning Lender shall be released from its further obligations under this Agreement. Borrower agrees that it shall execute and deliver (against delivery by the assigning Lender to Borrower of its Note) to such assignee Lender, Notes evidencing that assignee Lender's Pro Rata Share of the Commitments, and to the assigning Lender, Notes evidencing the remaining balance Pro Rata Share retained by the assigning Lender.

(c) By executing and delivering a Commitments Assignment and Acceptance, the Eligible Assignee thereunder acknowledges and agrees that: (i) other than the representation and warranty that it is the legal and beneficial owner of the Pro Rata Share of the Commitments being assigned thereby free and clear of any adverse claim, the assigning Lender has made no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness or sufficiency of this Agreement or any other Loan Document; (ii) the assigning Lender has made no representation or warranty and assumes no responsibility with respect to the financial condition of Borrower or the performance by Borrower of the Obligations; (iii) it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 7.1 and such other

documents and information as it has deemed

appropriate to make its own credit analysis and decision to enter into such Commitments Assignment and Acceptance; (iv) it will, independently and without reliance upon the Administrative Agent or any Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) it appoints and authorizes the Administrative Agent to take such action and to exercise such powers under this Agreement as are delegated to the Administrative Agent by this Agreement; and (vi) it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) The Administrative Agent shall maintain at the Administrative Agent's Office a copy of each Commitments Assignment and Acceptance delivered to it and a register (the "Register") of the name and address of each of the Lenders and the Pro Rata Share of the Commitments held by each Lender, giving effect to each Commitments Assignment and Acceptance. The Register shall be available during normal business hours for inspection by Borrower or any Lender upon reasonable prior notice to the Administrative Agent. After receipt of a completed Commitments Assignment and Acceptance executed by any Lender and an Eligible Assignee, and receipt of an assignment fee of \$3,500 from such Lender or Eligible Assignee, the Administrative Agent shall, promptly following the effective date thereof, provide to Borrower and the Lenders a revised Schedule 1.1 giving effect

thereto. Borrower, the Administrative Agent and the Lenders shall deem and treat the Persons listed as Lenders in the Register as the holders and owners of the Pro Rata Share of the Commitments listed therein for all purposes hereof, and no assignment or transfer of any such Pro Rata Share of the Commitments shall be effective, in each case unless and until a Commitments Assignment and Acceptance effecting the assignment or transfer thereof shall have been accepted by the Administrative Agent and recorded in the Register as provided above. Prior to such recordation, all amounts owed with respect to the applicable Pro Rata Share of the Commitments shall be owed to the Lender listed in the Register as the owner thereof, and any request, authority or consent of any Person who, at the time of making such request or giving such authority or consent, is listed in the Register as a Lender shall be conclusive and binding on any subsequent holder, assignee or transferee of the corresponding Pro Rata Share of the Commitments.

(e) Each Lender may from time to time grant participations to one or more banks or other financial institutions in a portion of its Pro Rata Share of the Commitments; provided, however, that (i) such Lender's

obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other financial institutions shall not be a Lender hereunder for any purpose except, if the participation agreement so provides, for the purposes of

Sections 3.6, 3.7, 3.8, 11.11 and 11.22 but only to the extent that the

cost of such benefits to Borrower does not exceed the cost which Borrower would have incurred in respect of such Lender absent the participation, (iv) Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, (v) the participation interest shall be expressed as a percentage of the granting Lender's Pro Rata Share of the Commitments as it then exists and shall not restrict an increase in the Commitments, or in the granting Lender's Pro Rata Share of the Commitments, so long as the amount of the participation interest is not affected thereby and (vi) the consent of the holder of such participation interest shall not be required for amendments or waivers of provisions of the Loan Documents other than those which (A) extend the Line

A Maturity Date, the Line B Maturity Date or any other date upon which any payment of money is due to the Lenders, (B) reduce the rate of interest on the Notes, any fee or any other monetary amount payable to the Lenders, (C) reduce the amount of any installment of principal due under the Notes or (D) release any Subsidiary Guarantor from its obligations under the Subsidiary Guaranty.

11.9 Right of Setoff. If an Event of Default has occurred and is

continuing, the Administrative Agent or any Lender (but in each case only with the consent of the Requisite Lenders) may exercise its rights under Article 9 of the Uniform Commercial Code and other applicable Laws and, to the extent permitted by applicable Laws, apply any funds in any deposit account maintained with it by Borrower and/or any Property of Borrower in its possession against the Obligations.

11.10 Sharing of Setoffs. Each Lender severally agrees that if it,

through the exercise of any right of setoff, banker's lien or counterclaim against Borrower, or otherwise, receives payment of the Obligations held by it that is ratably more than any other Lender, through any means, receives in payment of the Obligations held by that Lender, then, subject to applicable Laws: (a) the Lender exercising the right of setoff, banker's lien or counterclaim or otherwise receiving such payment shall purchase, and shall be deemed to have simultaneously purchased, from each of the other Lenders a participation in the Obligations held by the other Lenders and shall pay to the other Lenders a purchase price in an amount so that the share of the Obligations held by each Lender after the exercise of the right of setoff, banker's lien or counterclaim or receipt of payment shall be in the same proportion that existed

prior to the exercise of the right of setoff, banker's lien or counterclaim or receipt of payment; and (b) such other adjustments and purchases of participations shall be made from time to time as shall be equitable to ensure that all of the Lenders share any payment obtained in respect of the Obligations ratably in accordance with each Lender's share of the Obligations immediately prior to, and without taking into account, the payment; provided that, if all or

any portion of a disproportionate payment obtained as a result of the exercise of the right of setoff, banker's lien, counterclaim or otherwise is thereafter recovered from the purchasing Lender by Borrower or any Person claiming through or succeeding to the rights of Borrower, the purchase of a participation shall be rescinded and the purchase price thereof shall be restored to the extent of the recovery, but without interest. Each Lender that purchases a participation in the Obligations pursuant to this Section 11.10 shall from and after the

purchase have the right to give all notices, requests, demands, directions and other communications under this Agreement with respect to the portion of the Obligations purchased to the same extent as though the purchasing Lender were the original owner of the Obligations purchased. Borrower expressly consents to the foregoing arrangements and agrees that any Lender holding a participation in an Obligation so purchased pursuant to this Section 11.10 may exercise any and

all rights of setoff, banker's lien or counterclaim with respect to the participation as fully as if the Lender were the original owner of the Obligation purchased.

11.11 Indemnity by Borrower. Borrower agrees to indemnify, save and

hold harmless the Administrative Agent and each Lender and their respective directors, officers, agents, attorneys and employees (collectively the

"Indemnitees") from and against: (a) any and all claims, demands, actions or

causes of action (except a claim, demand, action, or cause of action for any

amount excluded from the definition of "Taxes" in Section 3.12(d)) if the claim,

demand, action or cause of action arises out of or relates to any act or omission (or alleged act or omission) of Borrower, its Affiliates or any of its officers, directors or stockholders relating to the Commitments, the use or contemplated use of proceeds of any Loan, or the relationship of Borrower and the Lenders under this Agreement; (b) any administrative or investigative proceeding by any Governmental Agency arising out of or related to a claim, demand, action or cause of action described in clause (a) above; and (c) any and

all liabilities, losses, costs or expenses (including reasonable attorneys' fees

and the reasonably allocated costs of attorneys employed by any Indemnitee and disbursements of such attorneys and other professional services) that any Indemnitee suffers or incurs as a result of the assertion of any foregoing claim, demand, action or cause of action; provided that no Indemnitee shall be

entitled to indemnification for any loss caused by its own gross negligence or willful misconduct or for any loss asserted against it by another Indemnitee. If any claim, demand, action or cause of action is asserted against any Indemnitee, such Indemnitee shall promptly notify Borrower, but the failure to so promptly notify

Borrower shall not affect Borrower's obligations under this Section unless such failure materially prejudices Borrower's right to participate in the contest of such claim, demand, action or cause of action, as hereinafter provided. Such Indemnitee may (and shall, if requested by Borrower in writing) contest the validity, applicability and amount of such claim, demand, action or cause of action and shall permit Borrower to participate in such contest. Any Indemnitee that proposes to settle or compromise any claim or proceeding for which Borrower may be liable for payment of indemnity hereunder shall give Borrower written notice of the terms of such proposed settlement or compromise reasonably in advance of settling or compromising such claim or proceeding and shall obtain Borrower's prior consent (which shall not be unreasonably withheld or delayed). In connection with any claim, demand, action or cause of action covered by this Section 11.11 against more than one Indemnitee, all such Indemnitees shall be

represented by the same legal counsel (which may be a law firm engaged by the Indemnitees or attorneys employed by an Indemnitee or a combination of the foregoing) selected by the Indemnitees and reasonably acceptable to Borrower; provided, that if such legal counsel determines in good faith that representing

all such Indemnitees would or could result in a conflict of interest under Laws or ethical principles applicable to such legal counsel or that a defense or counterclaim is available to an Indemnitee that is not available to all such Indemnitees, then to the extent reasonably necessary to avoid such a conflict of interest or to permit unqualified assertion of such a defense or counterclaim, each affected Indemnitee shall be entitled to separate representation by legal counsel selected by that Indemnitee and reasonably acceptable to Borrower, with all such legal counsel using reasonable efforts to avoid unnecessary duplication of effort by counsel for all Indemnitees; and further provided that the

Administrative Agent (as an Indemnitee) shall at all times be entitled to representation by separate legal counsel (which may be a law firm or attorneys employed by the Administrative Agent or a combination of the foregoing). Any obligation or liability of Borrower to any Indemnitee under this Section 11.11

shall survive the expiration or termination of this Agreement and the repayment of all Loans and the payment and performance of all other Obligations owed to the Lenders.

11.12 Nonliability of the Lenders. Borrower acknowledges and agrees

that:

(a) Any inspections of any Property of Borrower made by or through the Administrative Agent or the Lenders are for purposes of administration of the Loan only and Borrower is not entitled to rely upon the same (whether or not such inspections are at the expense of Borrower);

(b) By accepting or approving anything required to be observed, performed, fulfilled or given to the Administrative Agent or the

Lenders pursuant to the Loan Documents, neither the Administrative Agent nor the Lenders shall be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not constitute a warranty or representation to anyone with respect thereto by the Administrative Agent or the Lenders;

(c) The relationship between Borrower and the Administrative Agent and the Lenders is, and shall at all times remain, solely that of borrowers and lenders; neither the Administrative Agent nor the Lenders shall under any circumstance be construed to be partners or joint venturers of Borrower or its Affiliates; neither the Administrative Agent nor the Lenders shall under any circumstance be deemed to be in a relationship of confidence or trust or a fiduciary relationship with Borrower or its Affiliates, or to owe any fiduciary duty to Borrower or its Affiliates; neither the Administrative Agent nor the Lenders undertake or assume any responsibility or duty to Borrower or its Affiliates to select, review, inspect, supervise, pass judgment upon or inform Borrower or its Affiliates of any matter in connection with their Property or the operations of Borrower or its Affiliates; Borrower and its Affiliates shall rely entirely upon their own judgment with respect to such matters; and any review, inspection, supervision, exercise of judgment or supply of information undertaken or assumed by the Administrative Agent or the Lenders in connection with such matters is solely for the protection of the Administrative Agent and the Lenders and neither Borrower nor any other Person is entitled to rely thereon; and

(d) The Administrative Agent and the Lenders shall not be responsible or liable to any Person for any loss, damage, liability or claim of any kind relating to injury or death to Persons or damage to Property caused by the actions, inaction or negligence of Borrower and/or its Affiliates and Borrower hereby indemnifies and holds the Administrative Agent and the Lenders harmless on the terms set forth in Section 11.11 from

any such loss, damage, liability or claim.

11.13 No Third Parties Benefited. This Agreement is made for the

purpose of defining and setting forth certain obligations, rights and duties of Borrower, the Administrative Agent and the Lenders in connection with the Loans, and is made for the sole benefit of Borrower, the Administrative Agent and the Lenders, and the Administrative Agent's and the Lenders' successors and assigns. Except as provided in Sections 11.8 and 11.11, no other Person shall have any

rights of any nature hereunder or by reason hereof.

11.14 Confidentiality. Each Lender agrees to hold any confidential

information that it may receive from Borrower pursuant to this Agreement in confidence, except for disclosure: (a) to other Lenders or Affiliates of a

Lender; (b) to legal counsel and accountants for Borrower or any Lender; (c) to other professional advisors to Borrower or any Lender, provided that the recipient has accepted such information subject to a confidentiality agreement substantially similar to this Section 11.14; (d) to regulatory officials having

jurisdiction over that Lender; (e) as required by Law or legal process, provided that each Lender agrees to notify Borrower of any such disclosures unless prohibited by applicable Laws, or in connection with any legal proceeding to which that Lender and Borrower are adverse parties; and (f) to another financial institution in connection with a disposition or proposed disposition to that financial institution of all or part of that Lender's interests hereunder or a participation interest in its Notes, provided that the recipient has accepted such information subject to a confidentiality agreement substantially similar to this Section 11.14. For purposes of the foregoing, "confidential information"

shall mean any information respecting Borrower or its Subsidiaries reasonably considered by Borrower to be confidential, other than (i) information previously

filed with any Governmental Agency and available to the public, (ii) information previously published in any public medium from a source other than, directly or indirectly, that Lender, and (iii) information previously disclosed by Borrower to any Person not associated with Borrower which does not owe a professional duty of confidentiality to Borrower or which has not executed an appropriate confidentiality agreement with Borrower. Nothing in this Section shall be construed to create or give rise to any fiduciary duty on the part of the Administrative Agent or the Lenders to Borrower.

11.15 Further Assurances. Borrower shall, at its expense and without

expense to the Lenders or the Administrative Agent, do, execute and deliver such further acts and documents as the Requisite Lenders or the Administrative Agent from time to time reasonably require for the assuring and confirming unto the Lenders or the Administrative Agent of the rights hereby created or intended now or hereafter so to be, or for carrying out the intention or facilitating the performance of the terms of any Loan Document.

11.16 Integration. This Agreement, together with the other Loan

Documents and the letter agreement referred to in Sections 3.2, 3.4 and 3.5,

comprises the complete and integrated agreement of the parties on the subject matter hereof and supersedes all prior agreements, written or oral, on the subject matter hereof. In the event of any conflict between the provisions of this Agreement and those of any other Loan Document, the provisions of this Agreement shall control and govern; provided that the inclusion of supplemental

rights or remedies in favor of the Administrative

Agent or the Lenders in any other Loan Document shall not be deemed a conflict with this Agreement. Each Loan Document was drafted with the joint participation of the respective parties thereto and shall be construed neither against nor in favor of any party, but rather in accordance with the fair meaning thereof.

11.17 Governing Law. Except to the extent otherwise provided

therein, each Loan Document shall be governed by, and construed and enforced in accordance with, the Laws of California applicable to contracts made and performed in California.

11.18 Severability of Provisions. Any provision in any Loan Document

that is held to be inoperative, unenforceable or invalid as to any party or in any jurisdiction shall, as to that party or jurisdiction, be inoperative, unenforceable or invalid without affecting the remaining provisions or the operation, enforceability or validity of that provision as to any other party or in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

11.19 Headings. Article and Section headings in this Agreement and

the other Loan Documents are included for convenience of reference only and are not part of this Agreement or the other Loan Documents for any other purpose.

11.20 Time of the Essence. Time is of the essence of the Loan

Documents.

11.21 Foreign Lenders and Participants. Each Lender that is

incorporated or otherwise organized under the Laws of a jurisdiction other than the United States of America or any State thereof or the District of Columbia shall deliver to Borrower (with a copy to the Administrative Agent), on or before the Closing Date (or on or before accepting an assignment or receiving a participation interest herein pursuant to Section 11.8, if applicable) two duly

completed copies, signed by a Responsible Official, of either Form 1001 (relating to such Lender and entitling it to a complete exemption from withholding on all payments to be made to such Lender by Borrower pursuant to this Agreement) or Form 4224 (relating to all payments to be made to such Lender by Borrower pursuant to this Agreement) of the United States Internal Revenue Service or such other evidence (including, if reasonably necessary, Form W-9)

satisfactory to Borrower and the Administrative Agent that no withholding under the federal income tax laws is required with respect to such Lender. Thereafter and from time to time, each such Lender shall (a) promptly submit to Borrower (with a copy to the Administrative Agent), such additional duly completed and signed copies of one of such forms (or such successor forms as shall be adopted from time to time by the relevant United States taxing authorities) as may then be available under then current United States laws and regulations to avoid, or such evidence as is satisfactory to Borrower and the Administrative Agent of any available exemption from, United

States withholding taxes in respect of all payments to be made to such Lender by Borrower pursuant to this Agreement and (b) take such steps as shall not be materially disadvantageous to it, in the reasonable judgment of such Lender, and as may be reasonably necessary (including the re-designation of its Eurodollar Lending Office, if any) to avoid any requirement of applicable Laws that Borrower make any deduction or withholding for taxes from amounts payable to such Lender. In the event that Borrower or the Administrative Agent become aware that a participation has been granted pursuant to Section 11.8(e) to a financial

institution that is incorporated or otherwise organized under the Laws of a jurisdiction other than the United States of America, any State thereof or the District of Columbia, then, upon request made by Borrower or the Administrative Agent to the Lender which granted such participation, such Lender shall cause such participant financial institution to deliver the same documents and information to Borrower and the Administrative Agent as would be required under this Section if such financial institution were a Lender.

11.22 Hazardous Material Indemnity. Borrower hereby agrees to

indemnify, hold harmless and defend (by counsel reasonably satisfactory to the Administrative Agent) the Administrative Agent and each of the Lenders and their respective directors, officers, employees, agents, successors and assigns from and against any and all claims, losses, damages, liabilities, fines, penalties, charges, administrative and judicial proceedings and orders, judgments, remedial action requirements, enforcement actions of any kind, and all costs and expenses incurred in connection therewith (including but not limited to reasonable attorneys' fees and the reasonably allocated costs of attorneys employed by the Administrative Agent or any Lender, and expenses to the extent that the defense of any such action has not been assumed by Borrower), arising directly or indirectly out of (i) the presence, on, in, under or about any Real Property of any Hazardous Materials, or any releases or discharges of any Hazardous Materials on, under or from any Real Property and (ii) any activity carried on or undertaken on or off any Real Property by Borrower or any of its predecessors in title, whether prior to or during the term of this Agreement, and whether by Borrower or any predecessor in title or any employees, agents, contractors or subcontractors of Borrower or any predecessor in title, or any third persons at any time occupying or present on any Real Property, in connection with the handling, treatment, removal, storage, decontamination, clean-up, transport or disposal of any Hazardous Materials at any time located or present on, in, under or about any Real Property. The foregoing indemnity shall further apply to any residual contamination on, in, under or about any Real Property, or affecting any natural resources, and to any contamination of any Property or natural resources arising in connection with the generation, use, handling, storage, transport or disposal of any such Hazardous Materials, and irrespective of whether any of such activities were or will be undertaken in accordance with applicable Laws, but the foregoing indemnity

shall not apply to Hazardous Materials on any Real Property, the presence, release, discharge, etc. of which is caused by the Administrative Agent or the Lenders. Borrower hereby acknowledges and agrees that, notwithstanding any other provision of this Agreement or any of the other Loan Documents to the contrary, the obligations of Borrower under this Section shall be unlimited corporate obligations of Borrower and shall not be secured by any Lien on any Real Property. Any obligation or liability of Borrower to any Indemnitee under this Section 11.22 shall survive the expiration or termination of this Agreement and

the repayment of all Loans and the payment and performance of all other Obligations owed to the Lenders.

11.23 Removal of a Lender. Borrower shall have the right to remove a

Lender as a party to this Agreement if such Lender is paid a material amount by Borrower pursuant to Section 3.6 or Section 3.7. Upon notice from Borrower,

such Lender shall execute and deliver a Commitments Assignment and Acceptance covering that Lender's Pro Rata Share of the Commitments in favor of such Eligible Assignee as Borrower may designate, subject to payment in full by such Eligible Assignee of all principal, interest and fees owing to such Lender through the date of assignment and the agreement of such Eligible Assignee to indemnify such Lender with respect to all then outstanding Letters of Credit. The Administrative Agent shall, if requested by Borrower, use reasonable efforts to identify Eligible Assignees willing to accept such an assignment from such Lender.

11.24 Waiver of Right to Trial by Jury. EACH PARTY TO THIS AGREEMENT

HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER ANY LOAN DOCUMENT OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTY HERETO OR ANY OF THEM WITH RESPECT TO ANY LOAN DOCUMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE SIGNATORIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

11.25 Purported Oral Amendments. BORROWER EXPRESSLY ACKNOWLEDGES

THAT THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS MAY ONLY BE AMENDED OR
MODIFIED, OR THE PROVISIONS HEREOF OR THEREOF WAIVED OR SUPPLEMENTED, BY AN
INSTRUMENT IN WRITING THAT COMPLIES WITH SECTION 11.2. BORROWER AGREES THAT IT

WILL NOT RELY ON ANY COURSE OF DEALING, COURSE OF PERFORMANCE, OR ORAL OR
WRITTEN STATEMENTS BY ANY REPRESENTATIVE OF THE ADMINISTRATIVE AGENT OR ANY
LENDER THAT DOES NOT COMPLY WITH SECTION 11.2 TO EFFECT AN AMENDMENT,

MODIFICATION, WAIVER OR SUPPLEMENT TO THIS AGREEMENT OR THE OTHER LOAN
DOCUMENTS.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to
be duly executed as of the date first above written.

CALLAWAY GOLF COMPANY

By: /s/ DONALD H. DYE

Donald H. Dye
President and Chief Executive Officer

By: /s/ DAVID A. RANE

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

Address:

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

Attn: David A. Rane
Chief Financial Officer

Telecopier: (760) 929-8120
Telephone: (760) 931-1771

WELLS FARGO BANK, NATIONAL ASSOCIATION, as
Administrative Agent and a Lender

By: /s/ DAVID T. BRUEN

David T. Bruen
Vice President

Address for Matters other than Loan Administration:

Wells Fargo Bank, National Association
Commercial Banking Office
401 B Street, Suite 2201
San Diego, California 92101

Attn: David T. Bruen

Telecopier: (619) 699-3020
Telephone: (619) 699-3005

Address for Loan Administration:

Wells Fargo Bank National Association
Commercial Bank Loan Center
Agency Group MAC 0187-081
201 3rd Street, 8th Floor
San Francisco, California 94103

Attn: Cecilia Go

Telecopier: (415) 512-7059
Telephone: (415) 477-5330

SANWA BANK CALIFORNIA, as a Lender

By /s/ DAVID T. BEALL

David Beall
Vice President

Address:

Sanwa Bank California
1280 Fourth Avenue
San Diego, California 92101

Attn: David Beall

Telecopier: (619) 595-1918
Telephone: (619) 234-0938

THE BANK OF NEW YORK, as a Lender

By /s/ REBECCA K. LEVINE

Rebecca K. Levine
Vice President

Address:

The Bank of New York
10990 Wilshire Boulevard, Suite 1125
Los Angeles, California 90024

Attn: Rebecca K. Levine

Telecopier: (310) 996-8667
Telephone: (310) 996-8659

FIRST HAWAIIAN BANK, as a Lender

By /s/ DON YOUNG

Don Young
Vice President

Address:

First Hawaiian Bank
3333 Michelson Drive, Suite 510
Irvine, California 92612

Attn: Don Young

Telecopier: (714) 475-1220
Telephone: (714) 975-1904

MELLON BANK, N.A., as a Lender

By /s/ JOHN S. MCCABE

John S. McCabe
Senior Vice President

Address:

Mellon Bank, N.A.
400 South Hope Street, 5th Floor
Los Angeles, California 90071-2806

Attn: John S. McCabe

Telecopier: (213) 629-0492
Telephone: (213) 553-9675

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NATIONAL WESTMINSTER BANK PLC, as a Lender

By /s/ PETER J. STRINGER

Peter J. Stringer
Senior Vice President

Address:

NatWest UK, Inc.
MailStop: MA OF D06C
One Federal Street
Boston, Massachusetts 02110

Telecopier: (617) 346-4732
Telephone: (617) 346-4909

EXHIBIT A

COMMITMENTS ASSIGNMENT AND ACCEPTANCE

THIS COMMITMENTS ASSIGNMENT AND ACCEPTANCE ("Agreement") dated as of _____, 19__ is made with reference to that certain Revolving Loan Agreement dated as of February __, 1998 (as amended, extended, renewed, supplemented or otherwise modified from time to time, the "Loan Agreement") by and among Callaway Golf Company, a California corporation ("Borrower"), the lenders from time to time party thereto (the "Lenders") and Wells Fargo Bank, National Association, as Administrative Agent, and is entered into between the "Assignor" described below, in its capacity as a Lender under the Loan Agreement, and the "Assignee" described below.

Assignor and Assignee hereby represent, warrant and agree as follows:

1. Definitions. Capitalized terms defined in the Loan Agreement are

used herein with the meanings set forth for such terms in the Loan Agreement. As used in this Agreement, the following capitalized terms shall have the meanings set forth below:

"Assignee" means _____.

"Assigned Pro Rata Share" means ____% of the Commitments of the Lenders

under the Loan Agreement which equals \$_____.

"Assignor" means _____.

"Effective Date" means _____, 19__, the effective date of this

Agreement determined in accordance with Section 11.8 of the Loan Agreement.

2. Representations and Warranties of the Assignor. The Assignor

represents and warrants to the Assignee as follows:

a. As of the date hereof, the Pro Rata Share of the Assignor is _____% of the Commitments (without giving effect to assignments thereof which have not yet become effective). The Assignor is the legal and beneficial owner of the Assigned Pro Rata Share and the Assigned Pro Rata Share is free and clear of any adverse claim.

b. As of the date hereof, the outstanding principal balance of Advances made by the Assignor under the Assignor's Notes is \$_____ under the Line A Note, and \$_____ under the Line B Note. Unless otherwise agreed among Assignor and Assignee, amounts outstanding under Assignor's Notes, if any, shall not be assigned.

c. The Assignor has full power and authority, and has taken all action necessary, to execute and deliver this Agreement and any and all other documents required or permitted to be executed or delivered by it in connection with this Agreement and to fulfill its obligations under, and to consummate the transactions contemplated by, this Agreement, and no governmental authorizations or other authorizations are required in connection therewith; and

d. This Agreement constitutes the legal, valid and binding obligation of the Assignor.

e. The Assignor makes no representation or warranty and assumes no responsibility with respect to the financial condition of Borrower or the performance by Borrower of the Obligations, and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Agreement or the execution, legality, validity, enforceability, genuineness, or sufficiency of the Loan Agreement or any Loan Document other than as expressly set forth above.

3. Representations and Warranties of the Assignee. The Assignee

hereby represents and warrants to the Assignor as follows:

(a) The Assignee has full power and authority, and has taken all action necessary, to execute and deliver this Agreement, and any and all other documents required or permitted to be executed or delivered by it in connection with this Agreement and to fulfill its obligations under, and to consummate the transactions contemplated by, this Agreement, and no governmental authorizations or other authorizations are required in connection therewith;

(b) This Agreement constitutes the legal, valid and binding obligation of the Assignee;

(c) The Assignee has independently and without reliance upon the Administrative Agent or Assignor and based on such documents and information as the Assignee has deemed appropriate, made its own credit analysis and decision to enter

into this Agreement. The Assignee will, independently and without reliance upon the Administrative Agent or any Lender, and based upon such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Agreement;

(d) The Assignee has received copies of such of the Loan Documents delivered pursuant to Section 8.1 of the Loan Agreement as it has requested,

together with copies of the most recent financial statements delivered pursuant to Section 7.1 of the Loan Agreement;

(e) The Assignee will perform in accordance with their respective terms all of the obligations which by the terms of the Loan Agreement are required to be performed by it as a Lender; and

(f) The Assignee is an Eligible Assignee.

4. Assignment. On the terms set forth herein, the Assignor, as of -----
the Effective Date, hereby irrevocably sells, assigns and transfers, without recourse, to the Assignee all of the rights and obligations of the Assignor under the Loan Agreement, the other Loan Documents and the Assignor's Notes to the extent of the Assigned Pro Rata Share, and the Assignee irrevocably accepts such assignment of rights and assumes such obligations from the Assignor on such terms and effective as of the Effective Date. As of the Effective Date, the Assignee shall have the rights and obligations of a "Lender" under the Loan Documents, except to the extent of any arrangements with respect to payments referred to in Section 5 hereof. Assignee hereby appoints and authorizes the

Administrative Agent, to take such action and to exercise such powers under the Loan Agreement as are delegated to the Administrative Agent by the Loan Agreement.

5. Payment. On the Effective Date, the Assignee shall pay to the -----
Assignor, in immediately available funds, an amount equal to the purchase price of the Assigned Pro Rata Share, as agreed between the Assignor and the Assignee pursuant to a letter agreement of even date herewith. Such letter agreement also sets forth the agreement between the Assignor and the Assignee with respect to the amount of interest, fees, and other payments with respect to the Assigned Pro Rata Share which are to be retained by the Assignor. Assignee shall also pay to the Administrative Agent, as a condition to the effectiveness of this Agreement, an assignment fee of \$3,500 in accordance with Section 11.8 of the

Loan Agreement.

The Assignor and the Assignee hereby agree that if either receives any payment of interest, principal, fees or any other amount under the Loan Agreement, their respective Notes or any other Loan Documents which is for the account of the other, it shall hold the same in trust for such party to the extent of such party's interest therein and shall promptly pay the same to such party.

6. Principal, Interest, Fees, etc. Any principal that would be payable and any interest, fees and other amounts that would accrue from and after the Effective Date to or for the account of the Assignor pursuant to the Loan Agreement and its Notes shall be payable to or for the account of the Assignor and the Assignee, in accordance with their respective interests as adjusted pursuant to this Agreement.

7. Notes. The Assignor and the Assignee shall make appropriate arrangements with the Borrower concurrently with the execution and delivery hereof so that replacement Notes are issued to the Assignor and new Notes are issued to the Assignee in principal amounts reflecting their Pro Rata Shares of the Commitments and their outstanding Advances (as adjusted pursuant to this Agreement).

8. Further Assurances. Concurrently with the execution of this Agreement, the Assignor shall execute two counterpart original Requests for Registration, in the form of Exhibit A to this Agreement, to be forwarded to the Administrative Agent. The Assignor and the Assignee further agree to execute and deliver such other instruments, and take such other action, as either party may reasonably request in connection with the transactions contemplated by this Agreement, and the Assignor specifically agrees to cause the delivery of (i) two original counterparts of this Agreement and (ii) the Request for Registration, to the Administrative Agent for the purpose of registration of the Assignee as a "Lender" pursuant to Section 11.8 of the Loan Agreement.

9. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF CALIFORNIA APPLICABLE TO CONTRACTS MADE AND PERFORMED IN CALIFORNIA.

10. Notices. All communications among the parties or notices in connection herewith shall be in writing, hand delivered or sent by U.S. registered mail, postage prepaid, or by telecopy, addressed to the appropriate party at its address set forth on the signature pages hereof. All such communications and notices shall be effective upon receipt.

11. Binding Effect. This Agreement shall be binding upon and inure

to the benefit of the parties and their respective successors and assigns;
provided, however, that the Assignee shall not assign its rights or obligations
without the prior written consent of the Assignor and any purported assignment,
absent such consent, shall be void.

12. Interpretation. The headings of the various sections hereof are

for convenience of reference only and shall not affect the meaning or
construction of any provision hereof.

IN WITNESS WHEREOF, the parties have caused this Agreement to be
executed and delivered by their respective officials, officers or agents
thereunto duly authorized as of the date first above written.

"Assignor"

By: -----

Printed Name and Title

Address: -----

Telephone -----

Telecopier -----

"Assignee"

By: -----

Print Name and Title

Address: -----

Telephone -----

Telecopier -----

REQUEST FOR REGISTRATION

To: Wells Fargo Bank, National Association, as Administrative Agent, and the Borrower (described below).

THIS REQUEST FOR REGISTRATION OF ASSIGNEE is made as of the date of the enclosed Commitment Assignment and Acceptance with reference to that certain Revolving Loan Agreement, dated as of February __, 1998, by and among Callaway Golf Company, a California corporation ("Borrower"), the lenders from time to time party thereto (the "Lenders") and Wells Fargo Bank, National Association as Administrative Agent (as amended as of the date hereof, the "Loan Agreement").

The Assignor and Assignee described below hereby request that Administrative Agent register the Assignee as a Lender pursuant to Section 11.8

of the Loan Agreement effective as of the Effective Date described in the Commitments Assignment and Acceptance. Assignee hereby confirms the representations and warranties made in Section 3 of the Commitments Assignment and Acceptance for the benefit of Administrative Agent and the Borrower. Concurrently, herewith a similar portion of the interests of Assignor under the other Loan Documents is being assigned to Assignee.

Enclosed with this Request are two counterpart originals of the Commitments Assignment and Acceptance as well as the original Notes of Borrower in favor of the Assignor in the principal amount of \$_____ under the Line A Note and \$_____ under the Line B Note. The Assignor and Assignee hereby jointly request that Administrative Agent cause Borrower to issue replacement Notes, dated as of the Effective Date, pursuant to Section 11.8 of

the Loan Agreement in favor of Assignor in the principal amount of the remainder of its Pro Rata Share of the Commitments and Notes in favor of the Assignee in the amount of the Assigned Pro Rata Share. The Assignor and the Assignee further request that the Administrative

Agent cause Borrower to issue Notes, dated as of the Effective Date, in favor of the Assignee substantially in the form of Exhibits C and D to the Loan Agreement.

IN WITNESS WHEREOF, the Assignor and Assignee have executed this Request for Registration by their duly authorized officers as of this ___ day of _____, 19__.

"Assignor"

"Assignee"

By: _____

By: _____

Printed Name and Title

Printed Name and Title

CONSENT OF ADMINISTRATIVE AGENT AND BORROWER

[When Required Pursuant to Revolving Loan Agreement]

TO: The Assignor and Assignee referred to in the Request for Registration to which this Consent is attached

When countersigned by Administrative Agent and (when applicable) Borrower below, this document shall certify that:

[] [CHECK HERE IF BORROWER'S SIGNATURE IS REQUIRED PURSUANT TO SECTION 11.8(b)(i) OF THE REVOLVING LOAN AGREEMENT:]

1. Borrower has consented, pursuant to the terms of the Loan Documents, to the assignment by the Assignor to the Assignee of the Assigned Pro Rata Share.

2. Administrative Agent has registered the Assignee as a Lender under the Revolving Loan Agreement, effective as of the Effective Date described above, with a Pro Rata Share of the Commitments corresponding to the Assigned Pro Rata Share and has adjusted the registered Pro Rata Share of the Commitments of the Assignor to reflect the assignment of the Assigned Pro Rata Share.

Approved:

CALLAWAY GOLF COMPANY

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent

By _____

By _____

Printed Name & Title

Printed Name & Title

EXHIBIT B

COMPLIANCE CERTIFICATE

To: WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT

This Compliance Certificate is delivered with reference to that certain Revolving Loan Agreement dated as of February __, 1998, among Callaway Golf Company, a California corporation ("Borrower"), the Lenders therein named and Wells Fargo Bank, National Association, as Administrative Agent (as amended, extended, renewed, supplemented or otherwise modified from time to time, the "Loan Agreement"). Terms defined in the Loan Agreement and not otherwise defined in this Compliance Certificate ("Certificate") shall have the meanings defined for them in the Loan Agreement. Section references herein relate to the Loan Agreement unless stated otherwise.

This Certificate is delivered in accordance with Section 7.2 of the Loan Agreement by a Senior Officer of Borrower. This Certificate is delivered with respect to the Fiscal Quarter ended _____, ____ (the "Test Fiscal Quarter"). Computations indicating compliance with respect to the covenants contained in Sections 6.10, 6.12, 6.13, 6.14 and 6.15 of the Loan Agreement are set forth below:

I. Section 6.10 - Indebtedness and Guaranty Obligations. As of the last day of the Test Fiscal Quarter referred to above (the "Determination Date"):

A. Aggregate Indebtedness secured by a Lien on real Property of Borrower or any of its Subsidiaries that is non-recourse to the creditor or assets of Borrower or any of its Subsidiaries (other than the real Property securing such Indebtedness), in the current Fiscal Year, was \$_____.

B. Aggregate Indebtedness (including Subordinated Obligations) that is not secured by a Lien on any Property of Borrower or any of its Subsidiaries was \$_____.

Maximum Permitted: \$100,000,000

II. Section 6.12 - Adjusted Current Ratio. As of the Determination Date, the Adjusted Current Ratio was _____:1.00.

Minimum Required:

Period -----	Ratio -----
Closing Date through December 31, 1999	1.35 to 1.00
January 1, 2000 and thereafter	1.5 to 1.00

Adjusted Current Ratio is computed as follows:

(a) the consolidated current assets of Borrower and its Subsidiaries as of the Determination Date \$_____

divided by (b) the sum of:

(i) the consolidated current liabilities of Borrower and its Subsidiaries as of the Determination Date \$_____

and (ii) to the extent not included under (i), the aggregate Indebtedness evidenced by the Notes as of the Determination Date \$_____

and (iii) the Aggregate Effective Amount of all Letters of Credit outstanding on the Determination Date \$_____

sum of (i), (ii) and (iii) \$_____

equals Adjusted Current Ratio

[(a) divided by (b)] _____:1.00

III. Section 6.13 - Funded Debt Ratio. As of the Determination Date, the Funded

Debt Ratio was ____:1.00.

Maximum Permitted:

Period	Ratio
Closing Date through December 31, 1998	2.00 to 1.00
January 1, 1999 through December 31, 1999	1.75 to 1.00
January 1, 2000 and thereafter	1.50 to 1.00

Funded Debt Ratio is computed as follows:

(a) the sum of

(i) all Indebtedness of Borrower and its
Subsidiaries as of the Determination
Date other than Indebtedness evidenced
by the Notes \$_____

and (ii) the average daily balance of Indebtedness
evidenced by the Notes for the Test Fiscal
Quarter (or, if the Test Fiscal Quarter
commenced prior to the Closing Date,
for the period commencing on the
Closing Date and ended on the
Determination Date) \$_____

sum of (i) and (ii) \$_____

divided by (b) EBITDA for the fiscal period consisting of
the Test Fiscal Quarter and the three immediately
preceding Fiscal Quarters (the "Test Period")
(as calculated below) \$_____

equals Funded Debt Ratio [(a) divided by (b)] _____:1.00

EBITDA - Component Calculations

In the above calculations, EBITDA for the Test Period is calculated as follows, in each case as determined in accordance with GAAP

(a) Net Income for the Test Period	\$ _____
plus (b) any non-operating non-recurring loss reflected ----- in such Net Income	\$ _____
minus (c) any non-operating non-recurring ----- gain reflected in such Net Income	(\$ _____)
plus (d) Interest Expense of Borrower and its Subsidiaries ----- for the Test Period (which is the sum of (x) and (y) set forth below)	
(x) all interest, fees, charges and related expenses paid or payable (without duplication) for the Test Period to a lender in connection with borrowed money (including any obligations for fees, charges and related expenses payable to the issuer of any letter of credit) or the deferred purchase price of assets that are considered "interest expense" under GAAP	\$ _____
plus (y) the portion of rent paid or ----- payable (without duplication) for the Test Period under Capital Lease Obligations that should be treated as interest in accordance with Financial Accounting Standards Board Statement No. 13.	\$ _____
Interest Expense equals [(x)+(y)] -----	\$ _____
plus (e) the aggregate amount of federal and ----- state taxes on or measured by income of Borrower and its Subsidiaries for the Test Period (whether or not payable during the Test Period)	\$ _____

plus (f) depreciation, amortization and all

other non-cash expenses of Borrower and its
Subsidiaries for the Test Period

\$ _____

equals EBITDA [(a)+(b)-(c)+(d)+(e)+(f)]

\$ _____

IV. Section 6.14 - Fixed Charge Coverage Ratio. As of the Determination Date,

the Fixed Charge Coverage Ratio was: _____:1.00.

Minimum Required: 2.00:1.00

Fixed Charge Coverage Ratio is computed as follows:

(a) EBITDA (calculated above)
for the Test Period \$ _____

minus Capital Expenditures made

by Borrower and its Subsidiaries
during the Test Period (\$ _____)

difference equals \$ _____

divided by (b) the sum of

(i) Interest Expense of Borrower
and its Subsidiaries during
the Test Period \$ _____

and (ii) the current portion of long-
term debt of Borrower and
its Subsidiaries on the
Determination Date \$ _____

sum of (i) and (ii) \$ _____

equals Fixed Charge Coverage Ratio [(a) divided by (b)] _____:1.00

V. Section 6.15 - Stockholders' Equity. As of the Determination Date,

Stockholders' Equity was \$ _____.

Minimum Required: \$ _____ (as calculated below)

Minimum required Stockholders' Equity is calculated as follows:

(a) \$430,000,000	\$430,000,000
plus (b) 50% of Net Income in the Fiscal ---- Quarter ending December 31, 1997 and each Fiscal Quarter thereafter (with no deduction for a net loss in any such Fiscal Quarter)	\$ _____
plus (c) 50% of the proceeds of any ---- issuance by Borrower of equity securities subsequent to the Closing Date	\$ _____
minus (d) the amount equal to the aggregate ---- purchase prices paid for Stock Repurchases made during the period commencing on October 1, 1997 and ending on the Determination Date, but not in excess of \$75,000,000	(\$ _____)
equals minimum required Stockholders' ----- Equity [(a)+(b)+(c)-(d)]	\$ _____

VI. A review of the activities of Borrower during the fiscal period covered by this Certificate has been made under the supervision of the undersigned with a view to determining whether during such fiscal period Borrower performed and observed all of its Obligations. To the best knowledge of the undersigned, during the fiscal period covered by this Certificate, all covenants and conditions have been so performed and observed and no Default or Event of Default has occurred and is continuing, with the exceptions set forth below in response to which Borrower has taken or proposes to take the following actions (if none, so state).

VII. The undersigned Senior Officer of Borrower certifies that the calculations made and the information contained herein are derived from the books and records of

Borrower, as applicable, and that each and every matter contained herein correctly reflects those books and records.

VIII. To the best knowledge of the undersigned no event or circumstance has occurred that constitutes a Material Adverse Effect since the date the most recent Compliance Certificate was executed and delivered, with the exceptions set forth below (if none, so state).

Dated: _____, 199__

Printed Name and Title of Senior Officer
of Callaway Golf Company

EXHIBIT C

LINE A NOTE

\$ _____

February _____, 1998
San Diego, California

FOR VALUE RECEIVED, the undersigned promises to pay to the order of
(the "Lender"), the principal amount of

_____ DOLLARS (\$) _____) or such lesser aggregate

amounts as may be made as Advances under the Line A Commitment pursuant to the Loan Agreement referred to below, payable as hereinafter set forth. The undersigned promises to pay interest on the principal amount hereof remaining unpaid from time to time from the date hereon until the date of payment in full, payable as hereinafter set forth.

Reference is made to the Revolving Loan Agreement dated as of even date herewith, by and among Callaway Golf Company, a California corporation ("Borrower"), the Lenders which are parties thereto, and Wells Fargo Bank, National Association, as Administrative Agent (as the same may be further amended, renewed, extended or otherwise modified from time to time, the "Loan Agreement"). Terms defined in the Loan Agreement and not otherwise defined herein are used herein with the meanings given those terms in the Loan Agreement. This is one of the Line A Notes referred to in the Loan Agreement, and any holder hereof is entitled to all of the rights, remedies, benefits and privileges provided for in the Loan Agreement as originally executed or as it may from time to time be supplemented, modified or amended. The Loan Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events upon the terms and conditions therein specified.

With respect to any Foreign Currency Loan, the undersigned promises to pay principal and interest in the Foreign Currency of the Foreign Currency Loan.

The principal indebtedness evidenced by this Note shall be payable as provided in the Loan Agreement and in any event on the Maturity Date.

Interest shall be payable on the outstanding daily unpaid principal amount of each Advance hereunder from the date thereof until payment in full and shall accrue and be payable at the rates and on the dates set forth in the Loan

Agreement, both before and after default and before and after maturity and judgment, with interest on overdue principal and interest to bear interest at the rate set forth in Section 3.9 of the Loan Agreement, to the fullest extent

permitted by applicable Law.

The amount of each payment hereunder shall be made to the Administrative Agent at the Administrative Agent's Office for the account of the Lender in immediately available funds not later than 11:00 a.m. (California time) on the day of payment (which must be a Banking Day). All payments received after 11:00 a.m. (California time) on any particular Banking Day shall be deemed received on the next succeeding Banking Day. All payments shall be made in lawful money of the United States of America, except that payments of

principal and interest on Foreign Currency Loans shall be made in the Foreign Currency of that Foreign Currency Loan.

The Lender shall use its best efforts to keep a record of Advances made by it and payments of principal received by it with respect to this Note, and such record shall be presumptive evidence of the amounts owing under this Note.

The undersigned hereby promises to pay all costs and expenses of any rightful holder hereof incurred in collecting the undersigned's obligations hereunder or in enforcing or attempting to enforce any of such holder's rights hereunder, including reasonable attorneys' fees and disbursements (including allocated costs of legal counsel employed by the Administrative Agent or the holder), whether or not an action is filed in connection therewith.

The undersigned hereby waives presentment, demand for payment, dishonor, notice of dishonor, protest, notice of protest and any other notice or formality, to the fullest extent permitted by applicable Laws.

THIS NOTE SHALL BE DELIVERED TO AND ACCEPTED BY THE LENDER, OR BY ADMINISTRATIVE AGENT ON ITS BEHALF, IN THE STATE OF CALIFORNIA, AND SHALL BE GOVERNED BY, AND CONSTRUED AND

ENFORCED IN ACCORDANCE WITH, THE LAWS THEREOF APPLICABLE TO CONTRACTS MADE AND PERFORMED IN THE STATE OF CALIFORNIA.

CALLAWAY GOLF COMPANY

By

.....
[Printed Name and Title]

SCHEDULE OF ADVANCES AND
PAYMENTS OF PRINCIPAL

Date	Amount of Advance	Interest Period	Amount of Principal Paid	Unpaid Principal Balance	Notation Made by
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EXHIBIT D

LINE B NOTE

_____ \$

February __, 1998
San Diego, California

FOR VALUE RECEIVED, the undersigned promises to pay to the order of _____ (the "Lender"), the principal amount of _____ DOLLARS (\$ _____) or such lesser aggregate amounts as may be made as Advances under the Line B Commitment pursuant to the Loan Agreement referred to below, payable as hereinafter set forth. The undersigned promises to pay interest on the principal amount hereof remaining unpaid from time to time from the date hereon until the date of payment in full, payable as hereinafter set forth.

Reference is made to the Revolving Loan Agreement dated as of even date herewith, by and among Callaway Golf Company, a California corporation ("Borrower"), the Lenders which are parties thereto, and Wells Fargo Bank, National Association, as Administrative Agent (as the same may be further amended, renewed, extended or otherwise modified from time to time, the "Loan Agreement"). Terms defined in the Loan Agreement and not otherwise defined herein are used herein with the meanings given those terms in the Loan Agreement. This is one of the Line B Notes referred to in the Loan Agreement, and any holder hereof is entitled to all of the rights, remedies, benefits and privileges provided for in the Loan Agreement as originally executed or as it may from time to time be supplemented, modified or amended. The Loan Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events upon the terms and conditions therein specified.

The principal indebtedness evidenced by this Note shall be payable as provided in the Loan Agreement and in any event on the Maturity Date.

Interest shall be payable on the outstanding daily unpaid principal amount of each Advance hereunder from the date thereof until payment in full and shall accrue and be payable at the rates and on the dates set forth in the Loan Agreement, both before and after default and before and after maturity and judgment, with interest on overdue principal and interest to bear interest at the rate set forth in Section 3.9 of the Loan Agreement, to the fullest extent

permitted by applicable Law.

The amount of each payment hereunder shall be made to the Administrative Agent at the Administrative Agent's Office for the account of the Lender in immediately available funds not later than 11:00 a.m. (California time) on the day of payment (which must be a Banking Day). All payments received after 11:00 a.m. (California time) on any particular Banking Day shall be deemed received on the next succeeding Banking Day. All payments shall be made in lawful money of the United States of America.

The Lender shall use its best efforts to keep a record of Advances made by it and payments of principal received by it with respect to this Note, and such record shall be presumptive evidence of the amounts owing under this Note.

The undersigned hereby promises to pay all costs and expenses of any rightful holder hereof incurred in collecting the undersigned's obligations hereunder or in enforcing or attempting to enforce any of such holder's rights hereunder, including reasonable attorneys' fees and disbursements (including allocated costs of legal counsel employed by the Administrative Agent or the holder), whether or not an action is filed in connection therewith.

The undersigned hereby waives presentment, demand for payment, dishonor, notice of dishonor, protest, notice of protest and any other notice or formality, to the fullest extent permitted by applicable Laws.

THIS NOTE SHALL BE DELIVERED TO AND ACCEPTED BY THE LENDER, OR BY ADMINISTRATIVE AGENT ON ITS BEHALF, IN THE STATE OF CALIFORNIA, AND SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS THEREOF APPLICABLE TO CONTRACTS MADE AND PERFORMED IN THE STATE OF CALIFORNIA.

CALLAWAY GOLF COMPANY

By _____

[Printed Name and Title]

SCHEDULE OF ADVANCES AND
PAYMENTS OF PRINCIPAL

Date	Amount of Advance	Interest Period	Amount of Principal Paid	Unpaid Principal Balance	Notation Made by
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EXHIBIT E

[LETTERHEAD OF CALLAWAY GOLF]

February 4, 1998

The Lenders under the Revolving Loan Agreement referred to below
c/o Wells Fargo Bank, National Association, as Agent
Commercial Banking Office
401 B Street, Suite 2201
San Diego, California 92101

Re: Revolving Loan Agreement dated as of February 4, 1998

Ladies and Gentlemen:

This opinion is delivered to you in connection with the Revolving Loan Agreement dated as of February 4, 1998 (the "Loan Agreement") by and among Callaway Golf Company, a California corporation ("Borrower"), the Lenders that are parties thereto, and Wells Fargo Bank, National Association ("Wells Fargo Bank") as Administrative Agent. Capitalized terms not otherwise defined herein shall have the meanings defined for such terms in the Loan Agreement.

I am Corporate Counsel of Borrower. I have examined originals or copies of such records, documents and instruments (including, without limitation, the Loan Documents), made such investigations of fact and law, obtained or caused to be obtained such certificates of public officials, and done or caused to be done such other things as I have deemed necessary for purposes of this opinion. Further, with your consent, in rendering this opinion I have relied upon, as to certain factual matters set forth therein, the representations and warranties of Borrower contained in Article 4 of the Loan Agreement.

In my investigations and examinations to prepare this opinion, I have assumed the genuineness of all signatures, the authenticity of all documents submitted to me as originals, the conformity to authentic original documents of all documents submitted to me as conformed, certified or photostat copies, the lack of any understandings, waivers or amendments which would vary the terms of the documents which I received and the accuracy of the factual matters contained in such documents.

Based upon the foregoing and in reliance thereon, and subject to the limitations, qualifications and exceptions set forth herein, I am of the opinion that:

1. Borrower is a corporation duly formed, validly existing and in good standing under the Laws of the State of California. Borrower is duly qualified or registered to transact business and is in good standing in each other jurisdiction in which the conduct of its business or the ownership or leasing of its Properties makes such qualification or registration necessary, except where the failure so to qualify or register and to be in good standing would not constitute

a Material Adverse Effect. Borrower has all requisite corporate power and authority to conduct its business, to own and lease its Properties and to execute and deliver each Loan Document to which it is a Party and to perform its Obligations.

2. To my knowledge, Borrower is not in default under any Laws or other legal requirements in any respect that in the exercise of customary professional diligence I have recognized as being applicable to Borrower or that would be materially adverse to the interests of the Lenders. Borrower has obtained all authorizations, consents, approvals, orders, licenses and permits from, and has accomplished all filings, registrations and qualifications with, or obtained exemptions from any of the foregoing from, any Governmental Agency that are necessary for the transaction of its business, except where the failure so to comply, obtain authorizations, consents, approvals, orders, licenses or permits or to file, register, qualify or obtain exemptions does not constitute a Material Adverse Effect.

3. The execution, delivery and performance by Borrower and the Subsidiary Guarantors of the Loan Documents to which each is a Party have been duly authorized by all necessary corporate action, and do not and will not:

a. Require any consent or approval not heretofore obtained of any partner, director, stockholder, security holder or creditor of such Party;

b. Violate or conflict with any provision of such Party's charter, articles of incorporation or bylaws, as applicable;

c. To my knowledge, result in or require the creation or imposition of any Lien or Right of Others upon or with respect to any Property now owned or leased by such Party;

d. Violate any Requirement of Law known to me to be applicable to such Party; or

e. Result in a breach of or constitute a default under, or cause or permit the acceleration of any obligation owed under, any indenture or loan or credit agreement known to me or any other material Contractual Obligation known to me to which such Party is a party or by which such Party or any of its Property is bound or affected;

and such Party is not to my knowledge, in violation of, or default under, any Requirement of Law or Contractual Obligation, or any indenture, loan or credit agreement described in subsection e. above known to me, in any respect that constitutes a Material Adverse Effect.

4. Except as previously obtained or made, no authorization, consent, approval, order, license or permit from, or filing, registration or qualification with, any Governmental Agency is or will be required to authorize or permit under applicable Laws the execution, delivery and performance by Borrower or any Subsidiary Guarantor of the Loan Documents to which it is a Party.

5. Borrower is not a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

6. To my knowledge, except for (a) any matter fully covered as to subject matter and amount (subject to applicable deductibles and retentions) by insurance for which the insurance carrier has not asserted lack of subject matter coverage or reserved its right to do so, (b) any matter, or series of related matters, involving a claim against Borrower or any of its Subsidiaries of less than \$5,000,000, (c) matters of an administrative nature not involving a claim or charge against Borrower or any of its Subsidiaries and (d) matters set forth in Schedule 4.10 to the Loan Agreement, there are no actions, suits, proceedings or investigations pending as to which Borrower or any of its Subsidiaries have been served or have received notice or, to my knowledge, threatened against or affecting Borrower or any of its Subsidiaries or any Property of any of them before any Governmental Agency.

7. Each of the Loan Documents to which Borrower is a Party will, when executed and delivered by Borrower, constitute the legal, valid and binding obligation of Borrower, enforceable against Borrower in accordance with its terms.

8. Neither Borrower nor any of its Subsidiaries is or is required to be registered as an "investment company" under the Investment Company Act of 1940.

Notwithstanding anything in the foregoing opinions to the contrary, the foregoing opinions are subject to the following assumptions, exceptions, qualifications and limitations:

i. The effect of bankruptcy, insolvency, reorganization, moratorium and other laws and court decisions of general application (including, without limitation, laws relating to fraudulent conveyances, preferences and equitable subordination) and other legal or equitable principles (including without limitation concepts of materiality, reasonableness, good faith and fair dealing) relating to, limiting or affecting the enforcement of creditors' rights generally.

ii. The discretion of any court of competent jurisdiction in awarding equitable remedies including, but not limited to, specific performance or injunction relief.

iii. I express no opinion with respect to the legality, validity, binding nature or enforceability of any provision of the Loan Documents to the effect that rights or remedies are not exclusive, that every right or remedy is cumulative and may be exercised in addition to any other right or remedy, that the election of some particular remedy does not preclude recourse to one or more others or that failure to exercise or delay in exercising rights or remedies will not operate as a waiver of any such right or remedy.

iv. I express no opinion as to the legality, validity, binding nature or enforceability (a) of provisions relating to indemnification, exculpation or contribution, to the extent such provisions may be held unenforceable as contrary to public policy or federal or state securities laws, (b) of any provision of any Loan Document insofar as it provides for the payment or reimbursement of costs and expenses or for claims, losses or liabilities in excess of a reasonable amount determined by any court or other tribunal or (c) regarding the Lender's ability to collect attorneys' fees and costs in an action involving the Loan Documents if the Lender is not the prevailing party in such action (I call your attention that, under California law, where a contract permits one party thereto to recover attorneys' fees, the prevailing party in any action to enforce any provision of the contract shall be entitled to recover its reasonable attorneys' fees).

v. I express no opinion with respect to the legality, validity, binding nature or enforceability of (a) any waiver of rights existing, or duties owed, that is broadly or vaguely stated or does not describe the right or duty purportedly waived with reasonable specificity, (b) any waivers or consents (whether or not characterized as a waiver or consent in the Loan Documents) relating to the rights of Borrower or duties owing to it existing as a matter of law, including, without limitation, waivers of the benefits of statutory or constitutional provisions, to the extent such waivers or consents may be found by a court to be against public policy or which are ineffective pursuant to California statutes and judicial decisions, (c) any waivers of any statute of limitations to the extent such waivers are in excess of four years beyond the statutory period, (d) provisions in the Loan Documents that may be construed as imposing penalties or forfeitures, late payment charges or an increase in interest rate, upon delinquency in payment or the occurrence of a default, (e) covenants (other than covenants relating to the payment of principal, interest, indemnities and expenses) to the extent they are construed to be independent requirements as distinguished from conditions to the declaration or occurrence of a default or an event of default, (f) any power of attorney granted under the Loan Documents, (g) any rights of setoff (other than such as are provided by Section 3054 of the Civil Code of the State of California, as interpreted by applicable judicial decisions), or (h) any waivers or variations of rights of a debtor, including a guarantor, or duties of a secured party under provisions referred to in California Section 9501(3) of the California Uniform Commercial Code.

vi. I express no opinion as to (a) any provision of the Loan Documents requiring written amendments or waivers of such documents insofar as it suggests that oral or other

modifications, amendments or waivers could not be effectively agreed upon by the parties or that the doctrine of promissory estoppel might not apply, (b) any provision in any Loan Document waiving the right to object to venue in any court; (c) any consent or agreement to submit to the jurisdiction of any Federal Court or (d) any waiver of the right to jury trial.

vii. Whenever my opinion with respect to the existence or absence of facts is qualified by the phrase "to my knowledge," "known to me," or a similar phrase indicating or implying a limitation on my knowledge, such phrase means that I do not have actual current knowledge that the facts as stated herein are untrue following consultation with those attorneys presently in Borrower's Legal Department who have developed substantive attention to the transactions contemplated by the Loan Documents. Furthermore, in reaching certain of the legal conclusions set forth herein, my knowledge of certain relevant matters is based solely on the representations and warranties of Borrower contained in Article 4 of the Loan Agreement. Although I do not have knowledge that any statement made therein is false, I have conducted no investigation with respect thereto.

viii. I am admitted to practice in the State of California. The opinions herein are limited to the laws of the State of California and the federal laws of the United States and I express no opinion as to the laws of any other jurisdiction.

ix. In rendering this opinion, to the extent that the obligations of Borrower and its Subsidiaries under the Loan Documents may be dependent upon such matters, I have assumed that (a) the Administrative Agent and the Lenders have duly and validly authorized, executed and delivered such documents to be executed by them and the Loan Documents are legal, valid and binding obligations of such parties, enforceable against each of them in accordance with their respective terms, (b) the Administrative Agent and the Lenders are duly qualified and validly existing under the laws of their respective jurisdictions or organization and have obtained and kept in force at all relevant times, all licenses, permits and qualifications (if any) necessary to transact their respective businesses, and obtain and enforce contractual rights, in the State of California, (c) each Lender has the power and authority to make the Loans and the other parties to the Loan Documents have the power and authority to execute, deliver and perform the Loan Documents to which they are parties, (d) all California taxes due and payable by the parties to the Loan Documents (except Borrower and the Subsidiaries) have been paid, and (e) each Lender is exempt from the usury limitations imposed by Article XV, Section 1 of the California Constitution. I am further assuming that the Loans are being made by the Lenders for their own account and with no present intention to assign all or any portion of, or interest in, their rights under the Loan Documents (including any interest therein transferred as a participation) to any Person other than a lender who is exempt from the usury limitations imposed by Article XV, Section 1 of the California Constitution, and that any such assignment will be in compliance with all other applicable laws.

x. The opinion is being rendered as of the date hereof and I assume no obligation whatsoever to correct, modify or update this opinion subsequent to the date hereof.

xi. I express no opinion with respect to the validity or enforceability of any Guaranty Obligation granted by any Subsidiary in favor of the Lenders or Wells Fargo Bank.

This opinion is rendered to you in connection with the transactions referred to herein and may not be relied upon by any other Person (other than an assignee or successor in interest of any Lender of such Lender's interest in a Loan) or by you in any other context. This opinion may not be quoted nor may copies hereof be furnished to any other Person without the prior written consent of the undersigned, except that you may furnish a copy hereof (a) to your independent auditors and attorneys, (b) to any Governmental Agency having regulatory jurisdiction over you, (c) pursuant to order or legal process of any court or Governmental Agency, (d) in connection with any legal action to which you are a party arising out of the transactions referred to above and/or (e) to a financial institution in connection with a proposed assignment of your interest.

Respectfully submitted,

/s/ Ann McConlogue

Ann McConlogue
Corporate Counsel

EXHIBIT F

PRICING CERTIFICATE
CALLAWAY GOLF COMPANY

TO: WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT

Reference is made to that certain Revolving Loan Agreement (the "Loan Agreement") dated as of February __, 1998, among Callaway Golf Company, a California corporation ("Borrower"), the Lenders therein named and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Loan Agreement and not otherwise defined in this Certificate are used herein as so defined.

I, _____, hereby certify that I am the _____ of Callaway Golf Company, and that:

I. Applicable Pricing Level. As of the Pricing Period commencing on _____, the Applicable Pricing Level was Level ____/1/.

The Applicable Pricing Level set forth above was determined on the basis of the following:

Section 6.13 - Funded Debt Ratio. As of the last day of the Fiscal _____ Quarter most recently ended prior to the Pricing Period referred to above (the "Determination Date"), the Funded Debt Ratio was ____:1.00.

/1/ Insert Level I, II, III, IV or V in accordance with the terms of the Loan Agreement based upon determination of Funded Debt Ratio.

Funded Debt Ratio is computed as follows:

(a) the sum of

(i) all Indebtedness of Borrower and its
Subsidiaries as of the Determination
Date other than Indebtedness evidenced

by the Notes \$ _____

and (ii) the average daily balance of Indebtedness
evidenced by the Notes for the Test Fiscal
Quarter (or, if the Test Fiscal Quarter
commenced prior to the Closing Date,
or the period commencing on the Closing
Date and ended on the Determination
Date) \$ _____

sum of (i) and (ii) \$ _____

divided by (b) EBITDA for the fiscal period consisting of

the Test Fiscal Quarter and the three immediately preceding
Fiscal Quarters (the "Test Period") (as calculated below) \$ _____

equals Funded Debt Ratio [(a) divided by (b)] _____:1.00

EBITDA - Component Calculations

In the above calculations, EBITDA for the Test Period
is calculated as follows, in each case as determined in
accordance with GAAP

(a) Net Income for the Test Period \$ _____

plus (b) any non-operating non-recurring loss reflected

in such Net Income \$ _____

minus (c) any non-operating non-recurring

gain reflected in such Net Income (\$ _____)

plus (d) Interest Expense of Borrower and its Subsidiaries

for the Test Period (which is the sum of (x) and (y)
set forth below)

(x) all interest, fees, charges and related
expenses paid or payable (without
duplication) for the Test Period to a
lender in connection with borrowed
money (including any obligations for
fees, charges and related expenses
payable to the issuer of any letter of
credit) or the deferred purchase price
of assets that are considered "interest
expense" under GAAP \$ _____

plus (y) the portion of rent paid or

payable (without duplication) for the
Test Period under Capital Lease
Obligations that should be treated as
interest in accordance with Financial
Accounting Standards Board
Statement No. 13. \$ _____

Interest Expense equals [(x)+(y)] \$ _____

plus (e) the aggregate amount of federal and

state taxes on or measured by income of
Borrower and its Subsidiaries for the Test Period
(whether or not payable during the Test Period) \$ _____

plus (f) depreciation, amortization and all

other non-cash expenses of Borrower and its
Subsidiaries for the Test Period \$ _____

equals EBITDA [(a)+(b)-(c)+(d)+(e)+(f)] \$ _____

II. I further certify that the calculations made and the information contained herein are derived from the books and records of Borrower and its Subsidiaries, as applicable, and that each and every matter correctly reflects those books and records.

IN WITNESS WHEREOF, I have signed this Certificate on this ____ day of _____, 199__.

EXHIBIT G

REQUEST FOR LETTER OF CREDIT

1. This REQUEST FOR LETTER OF CREDIT is executed and delivered by Callaway Golf Company, a California corporation ("Borrower") to Wells Fargo Bank, National Association, as the Issuing Lender, pursuant to Sections 2.4 and 8.2

of that certain Revolving Loan Agreement (as amended, modified or extended, the "Agreement") dated as of February __, 1998, among Borrower, the Lenders which are parties thereto, Wells Fargo Bank, National Association, as Administrative Agent, and the Issuing Lender. Any terms used herein and not defined herein shall have the meanings set forth for such terms in the Agreement.

2. Borrower hereby requests that the Issuing Lender issue a Letter of Credit as follows:

(a) Amount of Letter of Credit: \$ _____ or _____
in the following Foreign Currency: _____.

(b) Date of Issuance: _____, 19__.

(c) Standby/Commercial (strike inapplicable one) Letter of Credit.

(d) Beneficiary under Letter of Credit:

Name: _____

Address: _____

(e) Expiry Date: _____, 19__.

(f) Purpose of Letter of Credit: _____

_____.

(g) Additional Information/Terms: _____

_____.

3. The requested Letter of Credit is (check one box only):

a new Letter of Credit in addition to Letters of Credit already outstanding.

a supplement, modification, amendment, renewal, or extension to or of the following outstanding Letter(s) of Credit: [identify] _____

4. In connection with the issuance of the Letter of Credit requested herein, Borrower represents, warrants and certifies to the Banks that:

(a) Now and as of the date of the issuance of the requested Letter of Credit, except (i) for representations and warranties which expressly speak

as of a particular date or which are no longer true and correct as a result of a change permitted by the Agreement or (ii) as disclosed by Borrower and approved in writing by the Requisite Lenders, each representation and warranty made by Borrower in Article 4 of the Agreement (other than

Sections 4.4(a), 4.6 (first sentence), 4.10 and 4.17) will be true and

correct, both immediately before such Letter of Credit is issued and after giving effect to such Letter of Credit, as though such representations and warranties were made on and as of the date of such Letter of Credit;

(b) Other than matters described in Schedule 4.10 to the Agreement or

not required as of the Closing Date to be described therein, there is not any action, suit, proceeding or investigation pending or threatened against or affecting Borrower or any of its Subsidiaries or any Property of any of them before any Governmental Agency that constitutes a Material Adverse Effect;

(c) Now and as of the date of the requested Letter of Credit, no Default or Event of Default presently exists or will have occurred and be continuing as a result of the issuance of the Letter of Credit; and

(d) Following the issuance of the Letter of Credit requested herein, (i) the Aggregate Effective Amount under all outstanding Letters of Credit will not exceed \$10,000,000, and (ii) the sum of (A) the aggregate

principal amount outstanding under the Line A Notes, plus (B) the Aggregate Effective Amount

of all outstanding Letters of Credit, plus (C) the Swing Line Outstandings will not exceed the then applicable Line A Commitment.

5. Attached hereto is an Application for Letter of Credit on the form provided to Borrower by the Issuing Lender.

6. This Request for Letter of Credit is executed on _____, 19____. The undersigned hereby certifies each and every matter contained herein to be true and correct.

CALLAWAY GOLF COMPANY

By: _____

Title: _____

EXHIBIT H

REQUEST FOR LOAN

1. This REQUEST FOR LOAN is executed and delivered by Callaway Golf Company ("Borrower") to Wells Fargo Bank, National Association, as Administrative Agent, pursuant to that certain Revolving Loan Agreement (as amended, modified or extended, the "Agreement") dated as of February ____, 1998, among Borrower, the Lenders that are parties thereto and Wells Fargo Bank, National Association, as Administrative Agent. Any terms used herein and not defined herein shall have the meanings set forth for such terms in the Agreement.

2. Borrower hereby requests that the Lenders make an Advance to it pursuant to the Agreement as follows:

(a) AMOUNT OF REQUESTED ADVANCE: \$ _____ /1/
or \$ _____ in the following Foreign Currency: _____ /2/

(b) DATE OF REQUESTED ADVANCE: _____

(c) TYPE OF REQUESTED ADVANCE (Check one box only):
 ALTERNATE BASE RATE
 EURODOLLAR RATE FOR AN INTEREST PERIOD OF _____ MONTHS/3/

- - - - -
/1/ Unless the Requisite Lenders otherwise consent, each Alternate Base Rate
Loan shall not be less than \$1,000,000, each Eurodollar Rate Loan shall not
be less than \$2,500,000 and all Loans shall be in integral multiples of
\$500,000.

/2/ Specify whether (a) Japanese Yen, or (b) such other currency (other than
Dollars) as acceptable to the Super-Requisite Lenders.

/3/ Specify whether 1, 2, 3 or 6-month Interest Period.

[] FOREIGN CURRENCY RATE FOR AN INTEREST PERIOD OF _____
MONTHS/4/
-

(e) Giving effect to the requested Advance, the aggregate Loans outstanding will be \$_____.

3. In connection with the request, Borrower certifies that:

(a) As to any Advance, now and as of the date of the requested Advance, except (i) for representations and warranties which expressly

speak as of a particular date or which are no longer true and correct as a result of a change permitted by the Agreement or (ii) as disclosed by Borrower and approved in writing by the Requisite Lenders, each representation and warranty made by Borrower in Article 4 of the Agreement

(other than Sections 4.4(a), 4.6 (first sentence), 4.10 and 4.17) will be

true and correct in all material respects on and as of the date of the Advance as though made on that date;

(b) As to any Advance, no circumstance or event is occurring that constitutes a Material Adverse Effect since the Closing Date.

(c) As to any Advance, other than matters described in Schedule

4.10 to the Loan Agreement or not required as of the Closing Date to be

therein described, there is not pending or threatened any action, suit, proceeding or investigation against or affecting Borrower or any of its Subsidiaries or any Property of any of them before any Governmental Agency that constitutes a Material Adverse Effect; and

(d) As to any Advance, no Default or Event of Default presently exists or will have occurred and be continuing as a result of the Advance.

/4/ Specify whether 1, 2, 3, 6 or 12-month Interest Period.
-

4. This Request for Loan is executed on _____, 19____, by a Responsible Official of Borrower. The undersigned, in such capacity, hereby certifies each and every matter contained herein to be true and correct.

CALLAWAY GOLF COMPANY

By: -----

Title: -----

EXHIBIT I

SUBSIDIARY GUARANTY

This SUBSIDIARY GUARANTY ("Subsidiary Guaranty"), dated as of February ____, 1998, is made by each of the undersigned Subsidiaries of Callaway Golf Company (each a "Guarantor" and collectively, jointly and severally, as "Guarantors") in favor of Wells Fargo Bank, National Association, as Administrative Agent for the benefit of the Lenders that are party to the Loan Agreement referred to below (collectively, the "Lender"), with reference to the following facts:

RECITALS

A. Pursuant to the Revolving Loan Agreement dated as of February ____, 1998, among Callaway Golf Company, a California corporation ("Borrower"), the Lenders therein named and Wells Fargo Bank, National Association, as Administrative Agent (as it may hereafter be amended, extended, renewed, supplemented, or otherwise modified from time to time, being the "Loan Agreement"), the Lenders have made certain credit facilities available to Borrower.

B. As a condition to the availability of such credit facilities, Guarantors are required to enter into this Subsidiary Guaranty and to guaranty the Guaranteed Obligations as hereinafter provided.

C. Each Guarantor expects to realize direct and indirect benefits as the result of the availability of the aforementioned credit facilities to Borrower, as the result of financial or business support which will be provided to the Guarantors by Borrower.

AGREEMENT

NOW, THEREFORE, in order to induce Lender to continue to extend the aforementioned credit facilities, and for other good and valuable consideration, the receipt and adequacy of which hereby are acknowledged, each Guarantor hereby jointly and severally represents, warrants, covenants, agrees and guaranties as follows:

1. Definitions. This Subsidiary Guaranty is the Subsidiary Guaranty referred to in the Loan Agreement and is one of the Loan Documents. Terms defined in the Loan Agreement and not otherwise defined in this Subsidiary Guaranty shall have the meanings given those terms in the Loan Agreement when used herein and

such definitions are incorporated herein as though set forth in full. In addition, as used herein, the following terms shall have the meanings respectively set forth after each:

"Guarantied Obligations" means all Obligations of Borrower or any

Party at any time and from time to time owed to Lender under one or more of the Loan Documents (but not including Obligations owed to Lender under this Subsidiary Guaranty), whether due or to become due, matured or unmatured, liquidated or unliquidated, or contingent or non-contingent, including obligations of performance as well as

obligations of payment, and including interest that accrues after the commencement of any bankruptcy or insolvency proceeding by or against Borrower, any Guarantor or any other Person.

"Guarantor" means, collectively, jointly and severally, each of the

undersigned and each other Person which hereafter becomes a party hereto by executing a Joinder hereto in the form of Exhibit A.

"Lender" means the Administrative Agent (acting as the Administrative

Agent and/or on behalf of the Lenders), and the Lenders, and each of them, and any one or more of them. Subject to the terms of the Loan Agreement, any right, remedy, privilege or power of Lender may be exercised by the Administrative Agent, or by the Requisite Lenders, or by any Lender acting with the consent of the Requisite Lenders.

"Subsidiary Guaranty" means this Subsidiary Guaranty, and any

extensions, modifications, renewals, restatements, reaffirmations, supplements or amendments hereof.

2. Guaranty of Guarantied Obligations. Each Guarantor hereby jointly

and severally irrevocably, unconditionally guaranties and promises to pay and perform on demand the Guarantied Obligations and each and every one of them,

including all amendments, modifications, supplements, renewals or extensions of

any of them, whether such amendments, modifications, supplements, renewals or extensions are evidenced by new or additional instruments, documents or agreements or change the rate of interest on any Guarantied Obligation or the security therefor, or otherwise.

3. Nature of Guaranty. This Subsidiary Guaranty is irrevocable and

continuing in nature and relates to any Guarantied Obligations now existing or

hereafter arising. This Subsidiary Guaranty is a guaranty of prompt and punctual payment and performance and is not merely a guaranty of collection.

4. Relationship to Other Agreements. Nothing herein shall in any way

modify or limit the effect of terms or conditions set forth in any other document, instrument or agreement executed by any Guarantor or in connection with the Guaranteed Obligations, but each and every term and condition hereof shall be in addition thereto. All provisions contained in the Loan Agreement or any other Loan Document that apply to Loan Documents generally are fully applicable to this Subsidiary Guaranty and are incorporated herein by this reference.

5. Subordination of Indebtedness of Borrower to Guarantors to the

Guaranteed Obligations. Each Guarantor agrees that:

(a) Any indebtedness of Borrower now or hereafter owed to that Guarantor hereby is subordinated in right of payment to the Guaranteed Obligations.

(b) If Lender so requests, upon the occurrence and during the continuance of any Event of Default, any such indebtedness of Borrower now or hereafter owed to that Guarantor shall be collected, enforced and received by that Guarantor as trustee for Lender and shall be paid over to Lender in kind on account of the Guaranteed Obligations, but without reducing or affecting in any manner the obligations of that Guarantor under the other provisions of this Subsidiary Guaranty.

(c) Should that Guarantor fail to collect or enforce any such indebtedness of Borrower now or hereafter owed to that Guarantor and pay the proceeds thereof to Lender in accordance with Section 5(b) hereof,

Lender as that Guarantor's attorney-in-fact may do such acts and sign such documents in that Guarantor's name as Lender considers necessary or desirable to effect such collection, enforcement and/or payment.

6. Statutes of Limitations and Other Laws. Until the Guaranteed

Obligations shall have been paid and performed in full, all the rights, privileges, powers and remedies granted to Lender hereunder shall continue to exist and may be exercised by Lender at any time and from time to time irrespective of the fact that any of the Guaranteed Obligations may have become barred by any statute of limitations. Each Guarantor expressly waives the benefit of any and all statutes of limitation, and any and all Laws providing for exemption of property from execution or for evaluation and appraisal upon foreclosure, to the maximum extent permitted by applicable Laws.

7. Waivers and Consents. Each Guarantor acknowledges that the

obligations undertaken herein involve the guaranty of obligations of Persons other than that Guarantor and, in full recognition of that fact, consents and agrees that Lender may, at any time and from time to time, without notice or demand, and without affecting the enforceability or continuing effectiveness hereof: (a) supplement, modify, amend, extend, renew, accelerate or otherwise change the time for payment or the terms of the Guaranteed Obligations or any part thereof, including any increase or decrease of the rate(s) of interest

thereon; (b) supplement, modify, amend or waive, or enter into or give any agreement, approval or consent with respect to, the Guaranteed Obligations or any part thereof, or any of the Loan Documents to which that Guarantor is not a party or any additional security or guaranties, or any condition, covenant, default, remedy, right, representation or term thereof or thereunder; (c) accept new or additional instruments, documents or agreements in exchange for or relative to any of the Loan Documents or the Guaranteed Obligations or any part thereof; (d) accept partial payments on the Guaranteed Obligations; (e) receive and hold additional security or guaranties for the Guaranteed Obligations or any part thereof; (f) release, reconvey, terminate, waive, abandon, fail to perfect, subordinate, exchange, substitute, transfer and/or enforce any security or guaranties, and apply any security and direct the order or manner of sale thereof as Lender in its sole and absolute discretion may determine; (g) release any Person from any personal liability with respect to the Guaranteed Obligations or any part thereof; (h) settle, release on terms satisfactory to Lender or by operation of applicable Laws or otherwise liquidate or enforce any Guaranteed Obligations and any security or guaranty therefor in any manner, consent to the transfer of any security and bid and purchase at any sale; and/or (i) consent to the merger, change or any other restructuring or termination of the corporate existence of Borrower, any Guarantor or any other Person, and correspondingly restructure the Guaranteed Obligations, and any such merger, change, restructuring or termination shall not affect the liability of Guarantors or the continuing effectiveness hereof, or the enforceability hereof with respect to all or any part of the Guaranteed Obligations.

Upon the occurrence and during the continuance of any Event of Default, Lender may enforce this Subsidiary Guaranty independently as to that Guarantor and independently of any other remedy or security Lender at any time may have or hold in connection with the Guaranteed Obligations. Each Guarantor expressly waives any right to require Lender to marshal assets in favor of Borrower, and agrees that Lender may proceed against Borrower, or upon or against any security or remedy, before proceeding to enforce this Subsidiary Guaranty, in such order as it shall determine in its sole and absolute discretion. Lender may file a separate action or actions against Borrower and/or any one or more Guarantors without respect to whether action is brought or prosecuted with respect to any security or against any other Person, or whether any other Person is joined in any such action or actions. Each Guarantor agrees that Lender and Borrower and any Affiliates of Borrower may deal with each

other in connection with the Guaranteed Obligations or otherwise, or alter any contracts or agreements now or hereafter existing between any of them, in any manner whatsoever, all without in any way altering or affecting the security of this Subsidiary Guaranty. Lender's rights hereunder shall be reinstated and revived, and the enforceability of this Subsidiary Guaranty shall continue, with respect to any amount at any time paid on account of the Guaranteed Obligations which thereafter shall be required to be restored or returned by Lender upon the bankruptcy, insolvency or reorganization of Borrower or any other Person, or otherwise, all as though such amount had not been paid. The rights of Lender created or granted herein and the enforceability of this Subsidiary Guaranty with respect to Guarantors at all times shall remain effective to guaranty the full amount of all the Guaranteed Obligations even though the Guaranteed Obligations, or any part thereof, or any security or guaranty therefor, may be or hereafter may become invalid or otherwise unenforceable as against Borrower or any other Guarantor or surety and whether or not Borrower shall have any personal liability with respect thereto. Each Guarantor expressly waives any and all defenses now or hereafter arising or asserted by reason of (a) any disability or other defense of Borrower with respect to the Guaranteed Obligations, (b) the unenforceability or invalidity of any security or guaranty for the Guaranteed Obligations or the lack of perfection or continuing perfection or failure of priority of any security for the Guaranteed Obligations, (c) the cessation for any cause whatsoever of the liability of Borrower (other than by reason of the full payment and performance of all Guaranteed Obligations), (d) any failure of Lender to marshal assets in favor of Borrower or any other Person, (e) except as otherwise provided in this Subsidiary Guaranty, any failure of Lender to give notice of sale or other disposition of Collateral to that Guarantor or any other Person or any defect in any notice that may be given in connection with any sale or disposition of Collateral, (f) any failure of Lender to comply with applicable Laws in connection with the sale or other disposition of any Collateral or other security for any Guaranteed Obligation, including without limitation, any failure of Lender to conduct a commercially reasonable sale or other disposition of any Collateral or other security for any Guaranteed Obligation, (g) any act or omission of Lender or others that directly or indirectly results in or aids the discharge or release of Borrower or the Guaranteed Obligations or any security or guaranty therefor by operation of law or otherwise, (h) any Law which provides that the obligation of a surety or guarantor must neither be larger in amount nor in other respects more burdensome than that of the principal or which reduces a surety's or guarantor's obligation in proportion to the principal obligation, (i) any failure of Lender to file or enforce a claim in any bankruptcy or other proceeding with respect to any Person, (j) the election by Lender, in any bankruptcy proceeding of any Person, of the application or non-application of Section 1111(b)(2) of the United States Bankruptcy Code, (k) any extension of credit or the grant of any Lien under Section 364 of the United States Bankruptcy Code, (l) any use of cash collateral under Section 363 of the United States Bankruptcy Code, (m) any agreement or stipulation with respect to the

provision of adequate protection in any bankruptcy proceeding of any Person, (n) the avoidance of any Lien in favor of Lender for any reason, (o) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, liquidation or dissolution proceeding commenced by or against any Person, including any

discharge of, or bar or stay against collecting, all or any of the Guaranteed Obligations (or any interest thereon) in or as a result of any such proceeding, or (q) any action taken by Lender that is authorized by this Section or any other provision of any Loan Document. Each Guarantor expressly waives all setoffs and counterclaims and all presentments, demands for payment or performance, notices of nonpayment or nonperformance, protests, notices of protest, notices of dishonor and all other notices or demands of any kind or nature whatsoever with respect to the Guaranteed Obligations, and all notices of acceptance of this Subsidiary Guaranty or of the existence, creation or incurrence of new or additional Guaranteed Obligations.

Without limiting the foregoing, each Guarantor intends to waive any and all of the rights and defenses described in California Civil Code Section 2856(a), without regard to the inclusion of any particular language or phrases in this Subsidiary Guaranty to waive any such rights and defenses or any references to statutory provisions or judicial decisions.

8. Condition of Borrower and its Subsidiaries. Each Guarantor

represents and warrants to Lender that such Guarantor has established adequate means of obtaining from Borrower and its other Subsidiaries, on a continuing basis, financial and other information pertaining to the businesses, operations and condition (financial and otherwise) of Borrower and its Subsidiaries and their Properties, and such Guarantor now is and hereafter will be completely familiar with the businesses, operations and condition (financial and otherwise) of Borrower and its Subsidiaries and their Properties. Each Guarantor hereby expressly waives and relinquishes any duty on the part of Lender (should any such duty exist) to disclose to that Guarantor any matter, fact or thing related to the businesses, operations or condition (financial or otherwise) of Borrower or its other Subsidiaries or their Properties, whether now known or hereafter known by Lender during the life of this Subsidiary Guaranty. With respect to any of the Guaranteed Obligations, Lender need not inquire into the powers of Borrower or any Subsidiaries thereof or the officers or employees acting or purporting to act on their behalf, and all Guaranteed Obligations made or created in good faith reliance upon the professed exercise of such powers shall be secured hereby.

9. Liens on Real Property. In the event that all or any part of the

Guaranteed Obligations at any time are secured by any one or more deeds of trust or mortgages or other instruments creating or granting Liens on any interests in real Property, each Guarantor authorizes Lender, upon the occurrence of and during the continuance of any Event of Default, at its sole option, without notice or demand and

without affecting any Guaranteed Obligations of that Guarantor, the enforceability of this Subsidiary Guaranty, or the validity or enforceability of any Liens of Lender on any Collateral, to foreclose any or all of such deeds of trust or mortgages or other instruments by judicial or nonjudicial sale. Each Guarantor expressly waives all rights and defenses that such Guarantor may have because the Obligations of Borrower are secured by real Property. This means, among other things, that the Lender may collect from any Guarantor without first foreclosing on any real or personal Property collateral pledged by Borrower. If the Lender forecloses on any real Property collateral pledged by Borrower, the amount of the Obligations may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price, and the Lender may collect from any Guarantor even if the Lender, by foreclosing on the real Property collateral, has destroyed any right that such Guarantor may have to collect from Borrower. This is an unconditional and irrevocable waiver of any rights and defenses each Guarantor may have because the Obligations of Borrower are secured by real Property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure. Each Guarantor further waives all rights and defenses arising out of an election of remedies by the Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a Guaranteed Obligation, has destroyed that Guarantor's rights of subrogation and reimbursement against Borrower by the operation of Section 580d of the California Code of Civil Procedure or otherwise. Each Guarantor expressly waives any right to receive notice of any judicial or nonjudicial foreclosure or sale of any real Property or interest therein subject to any such deeds of trust or mortgages or other instruments and that Guarantor's or any other Person's failure to receive any such notice shall not impair or affect that Guarantor's Obligations or the enforceability of this Subsidiary Guaranty or any rights of Lender created or granted hereby.

10. Waiver of Rights of Subrogation. Notwithstanding anything to the

contrary elsewhere contained herein or in any other Loan Document to which any Guarantor is a Party, each Guarantor hereby expressly waives with respect to Borrower and its successors and assigns (including any surety) and any other

Person which is directly or indirectly a creditor of Borrower or any surety for Borrower, any and all rights at Law or in equity to subrogation, to reimbursement, to exoneration, to contribution, to setoff or to any other rights that could accrue to a surety against a principal, to a guarantor against a maker or obligor, to an accommodation party against the party accommodated, or to a holder or transferee against a maker, and which that Guarantor may have or hereafter acquire against Borrower or any other such Person in connection with or as a result of that Guarantor's execution, delivery and/or performance of this Subsidiary Guaranty or any other Loan Document to which that Guarantor is a party. Each Guarantor agrees that it shall not have or assert any such rights against Borrower or its successors and assigns or any other Person (including

any surety) which is directly or indirectly a creditor of Borrower or any surety for Borrower, either directly or as an attempted setoff to any action commenced against that Guarantor by Borrower (as borrower or in any other capacity), Lender or any other such Person. Each Guarantor hereby acknowledges and agrees that this waiver is intended to benefit Borrower and Lender and shall not limit or otherwise affect that Guarantor's liability hereunder, under any other Loan Document to which that Guarantor is a party, or the enforceability hereof or thereof.

11. Understandings With Respect to Waivers and Consents. Each

Guarantor warrants and agrees that each of the waivers and consents set forth herein are made with full knowledge of their significance and consequences, with the understanding that events giving rise to any defense or right waived may diminish, destroy or otherwise adversely affect rights which that Guarantor otherwise may have against Borrower, Lender or others, or against any Collateral, and that, under the circumstances, the waivers and consents herein given are reasonable and not contrary to public policy or Law. Each Guarantor acknowledges that it has either consulted with legal counsel regarding the effect of this Subsidiary Guaranty and the waivers and consents set forth herein, or has made an informed decision not to do so. If this Subsidiary Guaranty or any of the waivers or consents herein are determined to be unenforceable under or in violation of applicable Law, this Subsidiary Guaranty and such waivers and consents shall be effective to the maximum extent permitted by Law.

12. Representations and Warranties. Each Guarantor hereby makes

each and every representation and warranty applicable to the Guarantors set forth in Article 4 of the Loan Agreement as if set forth in full herein.

13. Costs and Expenses. Each Guarantor jointly and severally agrees

to pay to Lender all costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements) incurred by Lender in the enforcement or attempted enforcement of this Subsidiary Guaranty, whether or not an action is filed in connection therewith, and in connection with any waiver or amendment of any term or provision hereof. All advances, charges, costs and expenses, including reasonable attorneys' fees and disbursements (including the reasonably allocated cost of legal counsel employed by Lender), incurred or paid by Lender in exercising any right, privilege, power or remedy conferred by this Subsidiary Guaranty, or in the enforcement or attempted enforcement thereof, shall be subject hereto and shall become a part of the Guaranteed Obligations and shall be paid to Lender by each Guarantor, immediately upon demand, together with interest thereon at the rate(s) provided for under the Loan Agreement.

14. Construction of this Guaranty. This Subsidiary Guaranty is

intended to give rise to absolute and unconditional obligations on the part of each

Guarantor; hence, in any construction hereof, notwithstanding any provision

of any Loan Document to the contrary, this Subsidiary Guaranty shall be

construed strictly in favor of Lender in order to accomplish its stated purpose.

15. Liability. Notwithstanding anything to the contrary elsewhere

contained herein or in any Loan Document to which any Guarantor is a Party, the aggregate liability of that Guarantor hereunder for payment and performance of the Guaranteed Obligations shall not exceed an amount which, in the aggregate, is \$1.00 less than that amount which if so paid or performed by that Guarantor would constitute or result in a "fraudulent transfer", "fraudulent conveyance", or terms of similar import, under applicable state or federal law, including without limitation, Section 548 of the United States Bankruptcy Code. The liability of each Guarantor hereunder is independent of any other guaranties at any time in effect with respect to all or any part of the Guaranteed Obligations, and each Guarantor's liability hereunder may be enforced regardless of the existence of any such guaranties. Any termination by or release of any guarantor in whole or in part shall not affect the continuing liability of any Guarantor hereunder, and no notice of any such termination or release shall be required. The execution hereof by each Guarantor is not founded upon an expectation or understanding that there will be any other guarantor of the Guaranteed Obligations.

16. WAIVER OF JURY TRIAL. EACH GUARANTOR AND LENDER EXPRESSLY WAIVE

THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS SUBSIDIARY GUARANTY, THE LOAN AGREEMENT, THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY OR PARTIES, WHETHER NOW EXISTING OR HEREAFTER ARISING AND WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. EACH GUARANTOR AND LENDER AGREE THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS SUBSIDIARY GUARANTY, THE LOAN AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS SUBSIDIARY GUARANTY, THE LOAN AGREEMENT AND THE OTHER LOAN DOCUMENTS. ANY

PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE SIGNATORIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

17. THIS SUBSIDIARY GUARANTY SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA APPLICABLE TO CONTRACTS MADE AND PERFORMED IN CALIFORNIA.

IN WITNESS WHEREOF, each Guarantor has executed this Subsidiary Guaranty by its duly authorized officer as of the date first written above.

"Subsidiary"

By: _____

Printed Name and Title

"Subsidiary"

By: _____

Printed Name and Title

"Subsidiary"

By: _____

Printed Name and Title

"Subsidiary"

By: _____

Printed Name and Title

"Subsidiary"

By: _____

Printed Name and Title

[Exhibit A]

INSTRUMENT OF JOINDER

THIS INSTRUMENT OF JOINDER ("Joinder") is executed as of _____, 19____, by _____, a _____ ("Joining Party"), and delivered to Wells Fargo Bank, National Association, as Administrative Agent, pursuant to the Subsidiary Guaranty dated as of February ____, 1998 made by certain of the Subsidiaries of Callaway Golf Company (each, a "Guarantor") in favor of the Administrative Agent and the Lenders referred to in the Loan Agreement referred to below (the "Subsidiary Guaranty"). Terms used but not defined in this Joinder shall have the meanings defined for those terms in the Subsidiary Guaranty.

RECITALS

(A) The Subsidiary Guaranty was made by the Guarantors in favor of the Administrative Agent for the benefit of the Lenders that are parties to that certain Revolving Loan Agreement dated as of February ____, 1998 by and among Callaway Golf Company, a California corporation ("Borrower"), the Lenders which are parties thereto and Wells Fargo Bank, National Association, as the Administrative Agent for the Lenders.

(B) Joining Party has become a Subsidiary of Borrower, and as such is required pursuant to Section 5.11 of the Loan Agreement to become a party to the _____ Subsidiary Guaranty.

(C) Joining Party expects to realize direct and indirect benefits as a result of the availability to Borrower of the credit facilities under the Loan Agreement.

NOW THEREFORE, Joining Party agrees as follows:

AGREEMENT

(1) By this Joinder, Joining Party becomes a party to the Subsidiary Guaranty as an additional joint and several "Guarantor." Joining Party agrees that, upon its execution hereof, it will become a Guarantor under the Subsidiary Guaranty

with respect to all Obligations of Borrower heretofore or hereafter incurred under the Loan Documents, and will be bound by all terms, conditions, and duties applicable to a Guarantor under the Subsidiary Guaranty.

(2) The effective date of this Joinder is _____.

"Joining Party"

a _____

By: _____

Title: _____

ACKNOWLEDGED:

WELLS FARGO BANK,
NATIONAL ASSOCIATION,
as Administrative Agent

By: _____

Title: _____

SCHEDULE 1.1

LENDER	LINE A	LINE B	TOTAL	PRO RATA SHARE
Wells Fargo Bank, National Association	\$ 46,666,666.67	\$23,333,333.33	\$ 70,000,000.00	46.66667%
Sanwa Bank California	\$ 13,333,333.33	\$ 6,666,666.67	\$ 20,000,000.00	13.33333%
The Bank of New York	\$ 10,000,000.00	\$ 5,000,000.00	\$ 15,000,000.00	10.00%
First Hawaiian Bank	\$ 10,000,000.00	\$ 5,000,000.00	\$ 15,000,000.00	10.00%
Mellon Bank, N.A.	\$ 10,000,000.00	\$ 5,000,000.00	\$ 15,000,000.00	10.00%
National Westminster Bank Plc	\$ 10,000,000.00	\$ 5,000,000.00	\$ 15,000,000.00	10.00%
TOTAL	\$100,000,000.00	\$50,000,000.00	\$150,000,000.00	100.00%

SCHEDULE 2.4
Existing Letters of Credit

Obligation Number -----	Maturity Date -----	Amount -----
1164	2/18/98	\$ 153,917.50
1172	3/16/98	\$ 496,277.72
1180	3/18/98	\$ 289,747.50
1198	3/16/98	\$ 444,255.00
1206	1/21/98	\$ 3,300.00
1248	2/16/98	\$ 305,805.00
1271	4/1/98	\$ 152,280.00
1289	2/16/98	\$ 91,800.00
1297	3/26/98	\$ 48,212.00
1305	3/1/98	\$ 46,226.80
1313	4/29/98	\$ 43,660.96
1321	5/29/98	\$ 33,600.16
1347	3/1/98	\$ 97,110.99
1354	3/29/98	\$ 98,928.54
1362	2/16/98	\$ 31,200.00
1370	2/27/98	\$ 157,170.00
1388	1/30/98	\$ 3,132.00
1396	4/29/98	\$ 75,600.00
1404	4/14/98	\$ 723,904.45
1412	5/14/98	\$ 294,551.49
1420	4/15/98	\$ 75,600.00
1438	5/29/98	\$ 37,800.00
1446	5/13/98	\$ 75,600.00
1453	4/29/98	\$ 566,303.00
1461	3/16/98	\$ 395,213.66

		\$4,741,196.77

SCHEDULE 4.4
Subsidiaries*

Odyssey Golf California corporation 100 shares issued and outstanding	Callaway Golf Sales Company California corporation 10,000 shares issued and outstanding
Callaway Golf Ball Company California corporation 1,000 shares issued and outstanding	CGV, Inc. California corporation 1,000 shares issued and outstanding
Callaway Golf (UK) Limited United kingdom corporation 572,500 shares issued and outstanding	Callaway Golf (Germany) GmbH German corporation 1 share issued and outstanding
Callaway (Barbados) Foreign Sales Corporation Barbados corporation 1 share issued and outstanding	ERC International Company Japanese corporation 100 shares issued and outstanding
Callaway Golf Child Care, Inc. California non-profit public benefit corporation (dissolution pending) No shares issued	Callaway Golf Children's Center, Inc. California non-profit public benefit corporation No shares issued
Callaway Golf Company Foundation California non-profit public benefit corporation No shares issued	

* All owned 100% by Callaway Golf Company

SCHEDULE 4.7
Existing Liens, Negative Pledges and Rights of Others

None

SCHEDULE 4.10
Material Litigation

None

SCHEDULE 4.18
Hazardous Materials Matters

None

SCHEDULE 6.10
Existing Indebtedness and Guaranty Obligations

None

SCHEDULE 6.16
Existing Investments

- A. Subsidiaries (See Schedule 4.4)
- B. All American Golf LLC, a California Limited Liability Company
 - Twenty Units (20%) owned by Callaway Golf Company
 - Initial Investment \$750,000
 - Loan Receivable \$5,250,000
- C. Callaway Golf Media Ventures LLC, a California Limited Liability Company
 - 80% owned by Callaway Golf Company
 - Initial Investment \$900,000
- D. Callaway Golf Trading GmbH
 - 80% owned by Callaway Golf (Germany) GmbH
- E. Interactive Light Holdings, Inc.
 - Callaway Golf Company and Interactive Light Holdings, Inc. ("ILH") are parties to a Development and Supply Agreement dated as of September 1, 1997, entered into to develop interactive golf applications with technology developed by ILH. Callaway Golf Company also acquired an option to purchase up to 10% of the outstanding shares of ILH, on a fully-diluted basis, at an exercise price of \$3.00 / share (subject to adjustments). The initial term of the option expires on September 1, 1998, and is subject to two (2) one (1) year extension options.

OPERATING AGREEMENT FOR
CALLAWAY GOLF MEDIA VENTURES, LLC
A CALIFORNIA LIMITED LIABILITY COMPANY

This Operating Agreement (this "Agreement") governs the relationship among the Members of Callaway Golf Media Ventures, LLC, a California limited liability company ("Company") and between Company and the Members, subject to the Articles and the Act, as either may be amended from time to time.

In consideration of their mutual promises, covenants, and agreements, the Members hereby promise, covenant, and agree as follows:

ARTICLE 1
DEFINITIONS

The capitalized terms used in this Agreement shall be defined either: (a) as set forth in Exhibit A, which is incorporated herein by reference; or, (b) if not defined in Exhibit A, as such terms are defined elsewhere in this Agreement.

ARTICLE 2
FORMATION MATTERS

2.1 Formation. Callaway Golf Company, a California corporation ("Golf") and

Callaway Editions, Inc., a Delaware corporation ("Editions"), as organizers, have formed a limited liability company under the laws of the State of California by the filing of the Articles pursuant to the Act. The business of Company shall be conducted under such name until such time as the Managers shall hereafter designate otherwise and the Managers file amendments to the Articles in accordance with applicable law.

2.2 Matters Regulated by Operating Agreement. Subject to the Articles and the

Act, as both may be amended from time to time, the internal affairs of Company shall be regulated by this Agreement as it shall be amended from time to time and by the Managers appointed and serving thereunder. If there is a direct conflict between the provisions of this Agreement and the mandatory provisions of the Act or the provisions of the Articles, such provisions of the Act or the Articles, as the case may be, will control.

2.3 Term of the Operating Agreement. The term of this Agreement shall commence

on the date of this Agreement and terminate the later of (i) December 31, 2072 and (ii) the date the copyright of Company in the last Guide expires under the United States Copyright Act, unless Company is earlier terminated upon its voluntary or involuntary dissolution or as otherwise provided in this Agreement. Despite the foregoing, September 1, 1997 shall be utilized for purposes of measuring the commencement of operations for purposes hereof, including Section 5.13.1.

2.4 Office and Agent. The Company shall continuously maintain an office and

registered agent in the State of California as required by the Act. The
principal office of the Company shall be at 70 Bedford Street, New York, New
York 10014, or such other location as may be determined by the Managers. The
registered agent shall be as stated in the Articles or as otherwise determined
by the Managers.

2.5 Other Formation Matters. Company will pay its expenses of organization and

reimburse any person advancing funds for this purpose. The Managers may
identify other places of business for Company, appoint agents for service of
process and mailing filings as may be required or desirable under the laws of
such other places. Company shall pay all expenses incurred in organizing
Company other than attorneys fees; attorneys fees payable to the attorneys for
Golf and the attorneys for Editions in connection with the negotiation and
formation of Company shall be paid by the Member incurring such fees and not by
Company.

ARTICLE 3
BUSINESS PURPOSE; BUSINESS PLAN AND BUDGET

3.1 Purpose. Company's purpose shall be to publish the Callaway Golf Guides

(the "Guides") in print form and such other media as the Members both agree to
and to conduct such other businesses as the Members both agree to. Company
shall conduct no other businesses.

3.2 Plans and Budgets. Editions, through the Editions Management Personnel,

shall prepare a business plan and budget for Company as soon as practicable and
shall update such plan and budget as agreed to by the Members. The plan and
each update are subject to approval by Golf.

ARTICLE 4
MEMBERS, CAPITAL CONTRIBUTIONS AND WITHDRAWALS, MEMBERSHIP
INTERESTS, ADMISSIONS, CERTIFICATES AND LIMITATIONS ON LIABILITIES
AND RESPONSIBILITIES OF MEMBERS

4.1 Members; Initial Capital Contributions. Members, their respective

addresses, their initial Capital Contributions to Company (the "Initial
Contributions"), and their respective initial Percentage Interests in Company
are set forth on Exhibit B. All initial Capital Contributions are hereby
assigned and contributed to Company.

4.2 No Other Required Capital Contributions; Additional Funding Requirements.

No Member shall be required to make any Capital Contributions to Company other
than the Initial Capital Contribution set forth opposite the Member's name on
Exhibit B, except by mutual agreement of both Members. Despite the foregoing,
if funds beyond the Initial Contributions and the Loan are required to operate
Company, as determined by the Managers, additional funding may be sought from
any source, including Golf, Editions, or a third party investor in the form of
equity or debt at the prevailing rates and terms offered in the market at the
time of

such funding. Both Golf and Editions will have a right of first refusal in providing such funding on a pro rata basis based upon their then respective Percentage Interests. Company will first seek such funds in the form of debt from third party lenders, if such funds can be obtained at reasonable commercial rates, without guaranties from Golf or Editions.

4.3 License of Callaway Name. Golf hereby agrees to license at no charge to

Company the tradename and/or service name and mark "Callaway Golf" to Company solely for use in connection with the publishing of the Guides and other activities to be undertaken by Company pursuant to Article 3. Such license is non-exclusive and shall terminate upon dissolution of Company. All specific uses by Company of the mark "Callaway Golf" shall be subject to the approval of the Managers appointed by Golf (in their sole discretion) and such reasonable controls as may be determined by Golf from time to time. Nothing in this Agreement shall affect, limit, expand, modify or otherwise change any rights that either Golf or Editions may have in or to the name or mark "Callaway", including any right to challenge the use of the mark by the other Member. All such rights are expressly reserved by each party.

4.4 Loan. Golf hereby agrees to loan Company up to \$20,000,000 (including

accrued interest) on a secured basis (the "Loan") on the terms and conditions of the Loan Agreement attached hereto as Exhibit C.

4.5 Editions Option. Golf hereby grants Editions the option to acquire a

portion of Golf's interest in Company, up to a ten percent (10%) Percentage Interest (including the appropriate proportion of Golf's Capital Account) at an aggregate price of One Hundred Thousand Dollars (\$100,000). Such option may be exercised in part on a pro rata basis. This option will expire August 31, 2000. The option must be exercised by written notice to Golf along with payment in cash or good funds of the exercise price.

4.6 Form of Capital Contributions. As provided in the Articles, the Initial

Contributions shall be in the form of cash and property contributions. Any subsequent Capital Contributions may be in any type of property or cash as may be agreed upon by both Members. Loans or services by a Member to Company (including the Loan) will not be considered contributions to the capital of Company.

4.7 No Withdrawals of Capital Contributions. No Member shall have the right to

withdraw its Capital Contributions or to demand and receive property of Company or any distribution in return for its Capital Contributions, except as may be specifically provided in this Agreement or required by law. No Member shall receive out of Company property any part of its Capital Contribution until: (i) all liabilities of Company, except liabilities to Members on account of their Capital Contributions, have been paid or there remains property of Company sufficient to pay them; (ii) the consent of all Members is had, unless the return of the Capital Contributions to the Member may be rightfully demanded as provided in the Act; or (iii) the Articles are canceled or so amended as to set out the withdrawal or reduction.

4.8 Admission of Additional Members. The Members may admit to Company

additional Members who will participate in the profits, losses, available cash flow, and ownership of the assets of Company on such terms as are determined by the Members.

4.9 Limitation on Liability. No Member or Manager shall be liable under a

judgment, or order of the court, or in any other manner, for a debt, obligation
or liability of Company, except as provided by law. Except for the Loan, no
Member shall be required to loan any funds to Company. No negative balance in a
Member's Capital Account will create any liability for Member to any third
party.

4.10 Liability of Members to Company. A Member is liable to Company for: (i)

the difference between its contribution to capital as actually made and that
stated in the Articles as having been made; and (ii) any unpaid contribution to
capital which it agreed in the Articles to make in the future when, and on the
conditions, stated in the Articles. A Member holds as trustee for Company: (i)
specific property stated in the Articles as contributed by such Member, but
which was not contributed or which has been wrongfully or erroneously returned;
and (ii) money or other property wrongfully paid or conveyed to such Member on
account of its contribution. The liabilities of a Member as set out in this
Section can be waived or compromised only by agreement of both Members, but a
waiver or compromise shall not affect the right of a creditor of Company who
extended credit or whose claim arose after the filing and before a cancellation
or amendment of the Articles, to enforce the liabilities. When a Former Member
has rightfully received the return in whole or in part of its contribution, the
Former Member is nevertheless liable to Company for any sum, not in excess of
the return with interest, necessary to discharge liability to all creditors of
Company who extended credit or whose claims arose before the return and who have
a claim against Company based on such liability.

4.11 No Responsibility For Other Member's Commitments. If a Member or any

Member's Affiliate has incurred any indebtedness or obligation prior to the date
hereof that relates to or otherwise affects Company, neither Company nor any
other Member shall have any liability or responsibility for or with respect to
such indebtedness or obligation unless such indebtedness or obligation is
assumed by Company pursuant to a written instrument approved by the Managers.
Furthermore, neither Company nor any Member shall be responsible or liable for
any indebtedness or obligation hereafter incurred by any other Member or such
Member's Affiliates. If a Member or such Member's Affiliates (collectively, the
"liable Member"), whether prior to or after the date hereof, incurs or has
incurred any debt or obligation that neither Company nor the other Members has
any responsibility or liability for, the liable Member shall indemnify, defend
and hold harmless Company and the other Members from any liability or obligation
they may incur in respect thereof.

ARTICLE 5

MANAGEMENT AND CONTROL OF BUSINESS

5.1 Management Of Company.

5.1.1 Management by Managers. All powers of Company shall be exercised by

or under the authority of, and the business and affairs of Company shall be managed under the direction of, the Managers, unless otherwise provided in the Act, the Articles, or this Agreement.

5.1.2 Appointment Of Managers By Members. Company shall have three (3)

Managers. Golf shall be entitled to appoint two (2) Managers and Editions shall be entitled to appoint one (1) Manager. Each Member may replace its elected Managers at any time upon written notice and a Manager may delegate his or her authority in writing to another person. No compensation shall be paid by, or charged to, Company for the time spent by Managers in that capacity. Members may change the number of Managers only by agreement of both Members.

5.2 Meetings. The Managers shall hold regular meetings at such time and place

as shall be determined by the Managers. Special meetings of the Managers may be called at any time by any one Manager. A quorum for any meeting shall be two (2) Managers, one of which must be the Manager appointed by Editions. No action may be taken by the Managers unless such quorum is present. The affirmative vote of at least two (2) Managers shall be required for any act or decision of the Managers. Despite the foregoing any merger, sale, consolidation or reorganization of Company or any conversion, exchange, reclassification, or other change of or to any interest in the capital or profits of Company will require the affirmative vote of all three (3) Managers. Any or all Managers may participate in any meeting by, or through the use of, any means of communication by which all Managers participating may simultaneously hear each other during the meeting. A Manager so participating is deemed to be present in person at the meeting. At any meeting, the Managers shall appoint a person to preside at the meeting and a person to act as secretary of the meeting. The secretary of the meeting shall prepare minutes of the meeting that shall be placed in the minute books of Company.

5.3 Committees. The Managers may establish one or more committees. Each

committee shall exercise those powers of the Managers delegated to it by the Managers. No action required or permitted to be taken by any such committee shall be taken without the affirmative vote of the majority of the members of such committee.

5.4 By-Laws. The Managers shall have the authority to adopt, implement and

amend by-laws governing the management and operation of Company.

5.5 Officers. Company may have officers; however such officers shall only have

such powers as are expressly authorized by the Managers and shall not have any other powers whatsoever, including any power to bind Company. The officers shall be appointed and may be removed by the Managers. Each officer shall hold office for the term for which he or she is elected until his or her successor has been elected.

5.6 Procedural Matters of the Managers. Each Manager shall have one vote in

all matters presented to the Managers for decision or approval. Unless waived in writing by all Managers (before or after a meeting) at least ten (10) business days prior written notice of any special or regular meeting shall be given to each Manager. Any action required or permitted to be taken

by the Managers or any committee thereof may be taken without a meeting, if all Managers consent in writing. Such consent shall have the same effect as a unanimous vote of the Managers or committee, as the case may be. To the extent not set forth in this Agreement, all procedures of the Managers shall be handled as if the Managers were a Board of Directors of a California corporation.

5.7 Specific Duties. If required by law, the Managers will qualify Company to

do business in New York and such states as are required to fulfill Company's business purposes. Funds of Company may not be commingled with funds of any other person and the Managers shall not employ, or permit any other person to employ, such funds in any manner except for the benefit of Company. The bank accounts of Company shall be maintained in such banking institutions as approved by the Managers and withdrawals shall be made only in the regular course of Company business and as otherwise authorized in this Agreement on such signature or signatures as the Managers determine. The Managers shall be responsible for authenticating the records of Company, including keeping correct and complete books of account which show accurately at all times the financial condition of Company, safeguarding all funds, notes, securities, and other valuables which may from time to time come into possession of Company and depositing all funds of Company with such depositories as the Managers shall designate.

5.8 Powers of Managers. The Managers, acting pursuant to this Section 5, shall

have all necessary powers to carry out the purposes, business, and objectives of Company, including, but not limited to, the right to enter into and carry out contracts of all kinds; to employ employees, agents, consultants and advisors on behalf of Company; to lend or borrow money and to issue evidences of indebtedness; to bring and defend actions in law or at equity; and to buy, own, manage, sell, lease, mortgage, pledge or otherwise acquire or dispose of Company property. Managers may deal with any related person, firm or corporation on terms and conditions available from an independent responsible third party that is willing to perform. Managers may not change the character of Company business or act in contradiction of the Articles or this Agreement. In dealing with Golf or its affiliates, the Managers shall recognize that Golf is an interested party and shall have the burden of showing that any relationship with Golf is fair to Company; such requirement shall be deemed satisfied and Editions shall be deemed to have determined the fairness of the transaction to the Company and Editions if Editions or the Manager appointed by Editions approves the transaction. The Loan is hereby approved by Editions as fair to Company. It is expressly understood that, in exercising its rights under the Loan, Golf is not acting as a fiduciary and may exercise its rights under such agreement in the same manner as any unrelated third party.

5.9 Reimbursement of Expenses. Any Manager shall be entitled to reimbursement

from Company of all reasonable business expenses of Company properly incurred pursuant to procedures adopted by the Managers and paid by such Manager on behalf of Company.

5.10 Conclusive Evidence Of Authority. Every contract, deed, mortgage, lease

and other instrument executed pursuant to a resolution of the Managers shall be conclusive evidence in favor of every person relying thereon or claiming thereunder that at the time of the delivery thereof: (i) Company was in existence, (ii) neither this Agreement nor the Articles had been

amended in any manner so as to restrict the delegation of authority among Members or the Managers; and (iii) the execution and delivery of such instrument was duly authorized by the Members and Managers. Any person may always rely on a certificate addressed to him and signed by at least two Managers: (i) as to who are the Members or Managers hereunder; (ii) as to the existence or non-existence of any facts which constitute a condition precedent to acts by the Members or the Managers or in any other manner germane to the affairs of Company; (iii) as to who is authorized to execute and deliver any instrument or document of Company; (iv) as to the authenticity of any copy of the Articles, this Agreement, amendments thereto and any other document relating to the conduct of Company affairs; and (v) as to any act or failure to act by Company or as to any other matter whatsoever involving Company, any Manager or any Member in the capacity as a Member or Manager of Company.

5.11 No Individual Authority for a Member. No Member acting alone shall have

any authority to act for, or to undertake or assume, any obligation, debt, duty or responsibility on behalf of, any other Member or Company. All actions of Company must be taken by the agreement of both Members, or by the Managers, as authorized by this Agreement.

5.12 Day-To-Day Operations. Day-to-day operations of Company, including

production, marketing and distribution of the products and the development of new products (if any), will be the responsibility of persons selected by the Managers. It is expected that some of such activities will be conducted by persons employed by Editions and, in such circumstances, Editions will be reimbursed at its direct cost for such services, if any, rendered to Company by Editions' employees other than Editions Management Personnel. Golf will designate a person to participate in the day-to-day management of Company and to act as a liaison with Golf. Such person will be an employee of Golf, but Company will reimburse Golf upon demand for the compensation and other expenses paid to such person by Golf. Editions will have the right to approve such person, which approval will not be unreasonably withheld or delayed.

5.13 Management Fee; Incentive Plan.

5.13.1 Fee. Editions will receive management fees of an aggregate of

\$450,000 per annum (payable in quarterly installments) for the first five (5) years of Company to cover the services of Nicholas Callaway, President and Editorial Director of Editions, and True Sims, Vice President and Director of Production of Editions or her successors (the "Editions Management Personnel") and their respective support staffs. If the publishing of the Guides requires more than five (5) years, the Members will negotiate an appropriate management fee for the Editions Management Personnel for the remaining period required to complete publication. For the management fee, Company will be entitled, on a cumulative basis, to 20% of the time and services of the Editions Management Personnel (and the time of Editions' support staff required to support the efforts of the Editions Management Personnel in providing their required services). No additional management fees will be payable if any projects are undertaken by Company beyond the Guides, unless expressly agreed to by Golf. While it is understood that Editions will be responsible for generating new products and concepts as well as analyzing third party concepts, Golf must approve all new products at various stages of development.

5.13.2 Incentive Plan. An incentive plan will be established providing

Editions with the right to receive up to 10% of the profits from the Guides, with such right to commence only as to profits accruing after the date that Golf has received distributions from Company in an amount equal to the amount of its investment (including the Loan) plus a cumulative 30% per annum, after tax, internal rate of return on its investment (including the Loan). The foregoing shall not affect Company's right to maintain at all times adequate reserves before making distributions to Golf or Editions.

5.13.3 Golf Services. Golf has the right to be reimbursed at market

rates for services provided to Company.

5.13.4 Treatment of Expenses. All amounts paid under this Section 5.13

shall be for services and not for a Member's interest and shall be deemed expenses of Company.

ARTICLE 6
MEETINGS AND VOTING OF MEMBERS

6.1 Time And Place Of Member Meetings. Annual meetings of the Members shall be

held each year in such places as the Managers may determine. Special meetings of the Members may be called by the Managers or by either Member.

6.2 Notice Of Meetings. The Person calling a meeting shall deliver or mail

written notice stating the date, time, and place of any meeting of Members and, in the case of a special Members' meeting or when otherwise required by law, a description of the purposes for which the meeting is called, to each Member, at such address as appears in the records of Company, such notice to be mailed at least ten (10), but not more than sixty (60), days before the date and time of the meeting. A Member may waive notice of any meeting, before or after the date of the meeting, by delivering a signed waiver to Company for inclusion in the minutes of Company. A Member's attendance at any meeting, in person or by proxy (a) waives objection to lack of notice or defective notice of the meeting, unless the Member at the beginning of the meeting objects to holding the meeting or transacting business at the meeting, and (b) waives objection to consideration of a particular matter at the meeting that is not within the purposes described in the meeting notice, unless the Member objects to considering the matter when it is presented.

6.3 Record Date. The record date for the purpose of determining the Members

entitled to notice of a Members' meeting, for demanding a special meeting, for voting, or for taking any other action shall be the tenth (10th) day prior to the date of the meeting or other action.

6.4 Voting. A Member may appoint a proxy to vote or otherwise act for the

Member pursuant to a written appointment form executed by the Member or the Member's duly authorized attorney-in-fact. An appointment of a proxy is effective when received by the Managers of Company. The general proxy of a fiduciary is given the same effect as the general proxy of any other Member. A proxy appointment is valid for eleven months unless otherwise expressly stated in the appointment form. At any meeting of Members, each

Member entitled to vote shall have a number of votes equal to the product of (i) its Percentage Interest (expressed as a whole number) as set forth on Exhibit B hereto, as amended from time to time, times (ii) one hundred (100). At any meeting of Members, presence of Members entitled to cast at least 51% of the total votes of all Members entitled to vote at such meeting constitutes a quorum. Unless otherwise expressly provided herein or by law, any action by Members requires approval of a majority of the Percentage Interests of Members. Upon the occurrence of a Dissolution Event, a Former Member shall not be entitled to any vote in determining whether Company shall continue, as provided in Section 12.1. No assignee of a Member's Interest in Company shall be entitled to vote or participate on any matters at any meeting unless such assignee becomes a substitute Member as contemplated in Section 13.3

6.5 Consent In Lieu of Meeting. Subject to the applicable laws of the State of -----
California, any action required or permitted to be taken at a Members' meeting may be taken without a meeting if the action is taken by all of the Members entitled to vote on the action. The action must be evidenced by one or more written consents describing the action to be taken, signed by all the Members entitled to vote on the action, and delivered to Company for inclusion in the minutes. The record date for determining Members entitled to take action without a meeting is the first date a Member signs the consent to such action.

6.6 Telephonic Participation at Meeting. Any or all Members may participate in -----
any annual or special Members' meeting by, or through the use of, any means of communication by which all Members participating may simultaneously hear each other during the meeting. A Member so participating is deemed to be present in person at the meeting.

6.7 Appointment Of Secretary For Meeting. At any annual or special Members' -----
meeting, the Managers shall appoint a person to preside at the meeting and a person to act as secretary of the meeting. The secretary of the meeting shall prepare minutes of the meeting which shall be placed in the minute books of Company.

ARTICLE 7

OWNERSHIP OF PROPERTY; ASSIGNMENT OF RIGHTS

7.1 Title to Properties. Real and personal property owned or purchased by -----
Company shall be held and owned, and conveyance made, in the name of Company. Instruments and documents providing for the acquisition, mortgage or disposition of property of Company shall be valid and binding upon Company if executed by two or more Managers of Company, unless otherwise authorized by the Managers.

7.2 Confidentiality; Ownership. Each Member and each Manager agrees to hold in -----
strictest confidence and not to use or disclose or make accessible to any person or entity, without the prior written consent of the Members, any Company Right or Company Information. Each Member and each Manager acknowledges that Company Rights and Company Information are solely owned by Company and that Company property may only be used for the benefit of Company.

7.3 Ownership And Disclosure Of Rights. Each Member agrees that, subject to

Section 7.4, any Rights which (a) are in whole or in part conceived or made by an employee of Company during the term of Company, and which result from any work performed by the employee for Company or (b) are made through the use of any Company Rights or any Company equipment, facilities, supplies or time, shall belong to and be owned exclusively by Company and be Company Rights, whether or not fixed in a tangible medium or expression. Any original works of authorship within the meaning of Company Rights will be "works made for hire" and Company will be the author under the U.S. Copyright Act (17 USCA, Section 101). If Company is not deemed to be the owner of any Company Rights upon creation, each Member hereby irrevocably assigns and transfers to Company all right, title and interest thereto, including copyrights. Each Member agrees from time to time to execute written transfers to Company of specific Company Rights, including original works of authorship and copyrights therein in a form acceptable to Company. Each Member agrees to cause its employees to execute agreements assigning Company Rights to Company. Each Member holds all Company Rights solely in trust for Company's sole benefit. Despite the foregoing, Company shall not acquire any rights in or to the Callaway name or mark except pursuant to the license from Golf provided in Section 4.3.

7.4 Independent Rights of Members; No Transfer. Each Member owns and operates

an independent business and owns its own Rights, including its own confidential information. It is expected that the Members may, from time to time, disclose certain of such Rights or other information to Company in connection with the operation of Company, although neither Member shall be required to disclose any of its Rights or other information to Company and any such disclosure will be in the sole discretion of the Member. Despite the provisions of Section 7.3, neither Company nor the other Member will acquire any right, title or interest in or to any Rights of a Member, even if utilized in the Guides or elsewhere, unless such Member executes a written agreement transferring such Rights (or an interest in or license thereto) to Company (or the other Member). Each Member agrees that Company Rights and Company Information shall in no event include any Right owned by a Member except to the extent of an interest granted in writing by a Member in its sole discretion in accordance with the preceding sentence. Company shall not use any Right or other information of a Member without the written consent of the Member (which may be withheld in its discretion) and any Right or other information of a Member shall be kept confidential in the same manner and to the same extent as required for Confidential Information and Company Rights pursuant to Section 7.2.

7.5 Copyright Registrations. Each Member will assist Company to obtain U.S.

and foreign copyright registrations (including transfers of ownership) covering Company Rights. If Company cannot for any reason, including a Member's disability, secure a Member's signature to apply for or pursue any application for any U.S. or foreign copyright registrations (or on any document transferring ownership) covering Company Rights, such Member hereby irrevocably designates and appoints Company and its officers and agents as the Member's agent and attorney-in-fact, to act for and in the Member's behalf and stead to execute and file any such applications and documents and to do all other lawfully permitted acts to further the prosecution and issuance of copyright registrations or transfers thereof with the same legal force and effect as if executed by the Member. This appointment is coupled with an interest in

Company Rights and will survive a Member's disability. Each Member hereby
quitclaims to Company all claims of any nature whatsoever that such Member may
now or hereafter have for infringement of any copyright resulting from or
relating to any such application for copyright registrations. Each Member hereby
assigns all copyrights in the Guides as part of their respective Initial
Contributions.

7.6 Disclosure; Records; Return Of Documents. Each Member will fully, promptly

and completely disclose to Company all Company Rights and agrees to maintain
adequate and current written records of all Rights developed or made by the
Member (solely or jointly with others) during the term of Company. The Managers
may specify any formats for these records. The records will be available to and
remain the sole property of Company.

7.7 Non-Competition. Editions covenants and agrees that, for a period from the

date hereof until eight (8) years after the last Guide is published by Company,
Editions will not, without the prior written consent of Golf, publish in any
media (or be engaged in any activity relating to publication in any media)
anything that features golf-related content, including any content competitive
with the Guides. Golf shall have no limitations on its activities and may
engage in activities competitive with Company activities; however, during the
term of Company until dissolution, Golf shall use reasonable efforts to consult
with Editions with respect to any proposed venture in which Golf will be
involved in the publication, in any media, of golf-related content as to whether
Company may participate in such proposed venture on some terms and conditions;
provided that Golf may determine in its sole, complete and absolute discretion
whether Company will participate in such venture and will have no obligation to
allow Company to so participate. Golf will not violate any proprietary rights
that Company has in the name of the Guides.

ARTICLE 8
CAPITAL ACCOUNTS

8.1 Maintenance of Accounts. Company shall maintain a separate Capital Account

for each Member strictly in accordance with the provisions of this Agreement and
the requirements of Code Section 704(b) and applicable regulations thereunder.

8.2 Determination of Accounts. A Member's Capital Account as of any date will

be the amount of money contributed by such Member to the capital of Company, (i)
increased by the Book Value of all property contributed by such Member to the
capital of Company at the time of such contribution (net of liabilities
associated with such contributed property that Company is considered to assume
or take subject to under Section 752 of the Code), and the amount of any Net
Profits, gains and income allocated to such Member, and (ii) decreased by the
amount of money distributed to such Member by Company (exclusive of a guaranteed
payment within the meaning of Section 707(c) of the Code paid to such Member),
the adjusted Book Value of any property distributed to such Member by Company
(net of liabilities associated with such distributed property that such Member
is considered to assume or take subject to under Section 752 of the Code), and
the amount of any Net Losses, losses, deductions or expenses charged to such
Member.

ARTICLE 9
ALLOCATION OF PROFITS AND LOSSES

9.1 General Allocation Of Net Profits And Net Losses.

9.1.1 Subject to Section 9.2, Net Losses for a fiscal year shall be allocated to each Member: (i) first, in proportion to the Members' respective Capital Account balances, until the Capital Accounts are reduced to zero (0); (ii) second, in proportion to the respective Special Risk Accounts of each Member, until the Special Risk Accounts are zero (0); and (iii) thereafter, in accordance with Percentage Interests.

9.1.2 Subject to Section 9.2, Net Profits for any fiscal year shall be allocated to each Member: (i) first to the Members until the aggregate amounts of Net Profits allocated to each of them pursuant to this Section 9.1.2(i) for the current and all prior fiscal years is sufficient to offset the aggregate amount of Net Losses allocated to each such Member for all prior fiscal years under first clause (iii), then clause (ii), and then clause (i) of Section 9.1.1, in proportion to and to the extent of the amounts of such Net Losses so allocated; and (ii) thereafter in accordance with Percentage Interests.

9.2 Overriding Rules.

9.2.1 Contributed Property. In accordance with Code Section 704(c) and the Regulations thereunder, income, gain, loss and deduction with respect to any property contributed to the capital of Company will, solely for tax purposes, be allocated between the Members to take account of any variation between the adjusted basis of the property to Company for federal income tax purposes and its initial Book Value.

9.2.2 Adjustments and Subsequent Allocations. If the Book Value of any Company property is adjusted in accordance with this Agreement, subsequent allocations of income, gain, loss and deduction as to such property will take account of any variation between the adjusted basis of such property for federal income tax purposes and its Book Value in the manner provided by applicable Regulations.

9.2.3 Capital Account Deficit. Despite any other provision of this Article, no Member shall receive an allocation of Net Losses, or any other item of loss or deduction that would create or increase an Adjusted Capital Account Deficit of the Member (provided that solely for purposes of this Section, an Adjusted Capital Account Deficit shall be determined by adding the Member's Special Risk Account to the Capital Account). Any loss, or item thereof, that cannot be allocated to a Member as a result of the foregoing limitation shall be allocated to all other Members. Any loss, or item thereof, allocated to other Members pursuant to the preceding sentence shall be taken into account in computing subsequent allocations of Net Profits or Net Losses so that the net amount of any items so allocated and the profits, losses and all other items allocated to each Member shall, to the extent possible, be equal to the net amount that would have been allocated to each Member if the allocations required by the preceding sentence had not been made.

9.2.4 Qualified Income Offset. If any Member has an Adjusted Capital

Account Deficit at the end of any fiscal year, such Member shall be specially allocated items of income and gain in the amount of such excess as quickly as possible, provided that an allocation pursuant to this subparagraph shall be made only if and to the extent that such Member would have an Adjusted Capital Account Deficit after all other allocations provided for in this Article have been made as if this Section were not in this Agreement.

9.2.5 Minimum Gain Charge-Back. Despite any other provision of this

Agreement, if there is a net decrease in Company Minimum Gain during any Company fiscal year, each Member who would otherwise have an Adjusted Capital Account Deficit at the end of such year shall be specially allocated items of Company income and gain for such year (and, if necessary in subsequent years) in an amount and manner sufficient to eliminate such Adjusted Capital Account Deficit as quickly as possible. The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(f) and incorporating by reference all exceptions and waivers contained therein. This Section is intended to comply with the minimum gain charge-back requirements in the Regulations Section 1.704-2 and shall be interpreted consistently therewith.

9.2.6 Member Minimum Gain Chargeback. Despite any other provision in this

Agreement, if there is a net decrease in Member Minimum Gain during any fiscal year, each Member who has a share of such Member Minimum Gain shall be specially allocated items of income and gain for such year (and, if necessary, subsequent years) in an amount equal to the portion of such Member's share of such net decrease in Member Minimum Gain. Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(i)(4). This Section is intended to comply with the minimum gain chargeback requirement in Regulations Section 1.704-2(i) and shall be interpreted consistently therewith.

9.2.7 Allocation of Nonrecourse Deductions. Member Nonrecourse Deductions

shall be allocated to the Member, if any, that bears the economic risk of loss for the Member Nonrecourse Debt to which the Member Nonrecourse Deductions are attributable. If more than one Member bears the economic risk of loss for a Member Nonrecourse Debt, the Nonrecourse Deduction attributable to such Member Nonrecourse Debt shall be allocated among such Members in accordance with the ratios in which the Members share the economic risk of loss for such Nonrecourse Debt. Otherwise, Nonrecourse Deductions shall be allocated in the same manner as, and be subject to the same restrictions imposed upon Net Losses.

9.2.8 Depreciation Recapture. Despite any other provision of this

Agreement, each Member's allocable share of gain, profit, income and Net Profits characterized as ordinary income under Sections 1245 or 1250 of the Code as to the disposition of an item of Company Property will bear the same ratio to the total gain, profit, income and Net Profits so characterized of Company as such Member's share of the past depreciation and/or cost recovery deductions taken with respect to the item of property bears to all the Members' past

depreciation and/or cost recovery deductions with respect to that property. A comparable adjustment will be made as required for state income tax purposes.

9.2.9 Credits. Subject to the applicable provisions of the Code and

Treasury Regulations Section 1.704-1(b), all tax credits and tax credit recapture will be allocated to the Members in accordance with their respective Percentage Interests.

9.2.10 Adjustments for Compliance with Regulations. The allocations of

income, loss, gain, and deduction set forth in this Agreement are intended to comply strictly with Regulations Section 1.704-1(b), and Regulations Section 1.704-2, and are intended to have "substantial economic effect" within the meaning of those Regulations. The allocations may not be consistent with the manner in which the Members intend to divide Company distributions. Accordingly, the Managers are hereby authorized to divide other allocations of Net Profits, Net Losses, and other items among the Members so as to prevent the allocations from distorting the manner in which Company distributions will be divided among the Members pursuant to this Article. In general, the Members anticipate that this will be accomplished by specially allocating other Net Profits, Net Losses, and items of income, gain, loss, and deduction among the Members so that the net amount of the allocations and such special allocations to each such Member is zero. If, for whatever reason, the Managers determine that the allocation provisions of this Agreement are unlikely to be respected for federal income tax purposes, the Managers are granted the authority to amend the allocation provisions of this Agreement, to the minimum extent necessary to effect the plan of allocations and distributions provided in this Agreement. The Managers shall have the discretion to adopt and revise rules, conventions and procedures as they believe appropriate in any reasonable manner with respect to the admission of Members to reflect the Member's Interests in Company at the close of the year.

9.3 Transfer or Change Of Interests. If the respective Percentage Interests of

the Members change or any interest is transferred to any other Person during the term in accordance with the provisions of this Agreement, for the fiscal year of transfer, cash distributions will be made and all income, gains, losses, deductions, tax credits and other tax incidents resulting from operations of Company will be allocated, as between the transferor and transferee, in accordance with Code Section 706, using any convention then permitted by law and selected by the Managers. Any transferee of an interest will succeed to the Capital Account of the transferor to the extent it relates to the transferred interest; provided, however, that if such transfer causes a termination of Company pursuant to Section 708(b)(1)(B) of the Code, the Capital Accounts of all Members, including the transferee, will be redetermined as of the date of such termination in accordance with Regulations Section 1.704(b).

9.4 Elections, Scope of Section. Any elections or other decisions relating to

allocations will be made by the Managers.

ARTICLE 10
NON-LIQUIDATING DISTRIBUTIONS

10.1 Timing and Form of Distributions. Net Cash Flow will be distributed to

the Members at such times as are determined by the Managers. Except pursuant to
Section 14.6, the Managers shall not distribute any Company property in kind.

10.2 Distributions. Except as otherwise provided in this Agreement, including

Article 14 hereof, distributions to Members will be made in accordance with
their respective Percentage Interests. Despite the foregoing, Company shall in
each calendar year: (a) distribute to Editions sufficient funds to pay taxes
due on cumulative profits of Company allocated to Editions after taking into
account prior losses (so, that, for example, if in one year Editions is
allocated \$100,000 in losses and, in the next year, Editions is allocated
\$200,000 in profits, the amount distributed in the second year would be only
such amount as will cover taxes payable by Editions on \$100,000 (i.e., the
\$200,000, less the prior year's \$100,000 in losses); and (b) distribute to Golf
an amount proportionate to the amount distributed to Editions pursuant to
subpart (a), based on the respective Percentage Interests of Golf and Editions,
so that, if, for example, Editions is distributed \$100,000 and Editions has a
twenty percent (20%) Percentage Interest and Golf has an eighty percent
Percentage Interest, then Golf will be distributed \$400,000. The next
distributions shall be made so as to make cumulative distributions
proportionate. It is also understood that distributions will only be made after
all payments required to be made to Golf under the Loan are paid.

10.3 Limitation on Distributions. Despite the foregoing provisions of this

Article, Company will not make any distribution that would render Company
insolvent.

10.4 Allocations. The Managers shall make any distribution of Net Cash Flow to

those persons or entities recognized on the books of Company as Members or as
assignees of interests on the day of the distribution. If any Interest is
transferred, or is increased or decreased by reason of the admission of a new
Member or otherwise, during any fiscal year of Company, each item of income,
gain, loss, deduction, or credit of Company for such fiscal year shall be
assigned pro rata to each day in the particular period of such fiscal year to
which such item is attributable (i.e., the day on or during which it is accrued
or otherwise incurred) and the amount of each such item so assigned to any such
day shall be allocated to the Member based upon its respective Interest at the
close of such day. For the purpose of accounting convenience and simplicity,
Company shall treat a transfer of, or an increase or decrease in, an Interest in
Company which occurs at any time during a semi-monthly period (commencing with
the semi-monthly period including the date hereof) as having been consummated on
the first day of such semi-monthly period, regardless of when during such semi-
monthly period such transfer, increase, or decrease actually occurs (i.e., sales
and dispositions made during the first 15 days of any month will be deemed to
have been made on the 1st day of the month).

ARTICLE 11
ACCOUNTING, RECORDS, REPORTING BY MEMBERS

11.1 Accounting Decisions by Managers. All management decisions as to

accounting matters, except as otherwise specifically set forth herein, shall be
made by the Managers. Day to day accounting may be delegated to Editions or
others. The Managers may rely upon the

advice of their accountants as to whether such decisions are in accordance with accounting methods followed for federal income tax purposes.

11.2 Records and Accounting Maintained. The books and records of Company shall

be kept, and the financial position and the results of its operations recorded, in accordance with the accounting methods determined by the Managers. The books and records of Company shall reflect all Company transactions and shall be appropriate and adequate for Company's business. The fiscal year of Company for financial reporting and for federal income tax purposes shall be the calendar year. Company shall maintain a Company Minute Book to include the Articles, this Agreement and any amendments thereto and the minutes of meetings (or consents in lieu of meetings) of Members and Managers and other important documents of Company.

11.3 Access for Members to Accounting Records. All books and records of

Company shall be maintained at any office of Company or at Company's principal place of business, and each Member, and its duly authorized representative, shall have access to them at such office of the Company and the right to inspect and copy them at reasonable times.

11.4 Annual Tax Information for Members. Company shall use its best efforts to

deliver to each Member within 60 days after the end of each fiscal year all information necessary for the preparation of such Member's federal income tax return. Company shall also use its best efforts to prepare, within 60 days after the end of each fiscal year, a financial report of the Company for such fiscal year in accordance with generally accepted accounting principles, containing a balance sheet as of the last day of the year then ended, an income statement for the year then ended, a statement of cash flows, and a statement of reconciliation of the Capital Accounts of Members.

11.5 Tax Matters Partner. Golf is designated as "Tax Matters Partner" (as

defined in Code Section 6231), and is authorized and required to represent Company (at Company's expense) in connection with all examinations of Company's affairs by tax authorities, including resulting judicial and administrative proceedings, and to expend Company funds for professional services and costs associated therewith. In its capacity as "Tax Matters Partner", Golf shall oversee Company tax affairs in the overall best interests of Company.

11.6 Federal Income Tax Elections. The Managers on behalf of Company may make

all elections for federal income tax purposes, including but not limited to, an election, to the extent permitted by applicable law and regulations, to use an accelerated depreciation method on any depreciable unit of the assets of the Company. In case of a transfer of all or part of the Interest of any Member, at the request of the transferee Member, the Company shall elect, pursuant to Code Sections 734, 743, and 754 of the Code, as amended (or corresponding provisions of future law) to adjust the basis of the assets of Company; provided that, upon a request from a Member, Company shall make the election under 754 of the Code, as amended (or corresponding provisions of future law).

11.7 Accounting Method. For financial reporting purposes, the books and

records of Company shall be kept on the accrual method of accounting applied in a consistent manner and

shall reflect all transactions of Company and be appropriate and adequate for the purposes of Company.

ARTICLE 12
CONSEQUENCES OF DISSOLUTION EVENT

12.1 Consent to Continue. On the occurrence of any Dissolution Event, Company

shall dissolve unless the remaining Member, if any, elects to continue the business of Company. If the remaining Member elects to continue the business of Company, the remaining Member, to avoid dissolution of Company, shall, within six (6) months following the Dissolution Event, notify the Former Member of the intent to purchase the Former Member's Interest.

12.2 Failure to Submit Notice of Purchase. If the remaining Member does not

provide the Former Member or its successors with a notice of intent to purchase the Interest of the Former Member, within the applicable six (6) month period, then the election on the part of the remaining Member to continue Company shall be void and Company shall be liquidated.

12.3 Purchaser. The remaining Member may purchase the Former Member's Interest

or may assign such right to any other Person. If the remaining Member (or its assignee) elects to purchase none or less than all of the Former Member's Interest, then Company may at its election purchase the remaining portion of the Former Member's interest. If the remaining Member and Company fail to purchase the entire interest of the Former Member, the same shall pass by operation of law to any assignee or shall remain in the hands of the Former Member, subject to any right of the holder of such interest to demand payment therefor according to California law.

12.4 Valuation of Interest of Member. The Former Member's Interest shall be

valued for purchase purposes at fair market value ("Fair Market Value") as of the date of the Dissolution Event. If the applicable parties are not able to agree upon Fair Market Value within ninety (90) days after notice is provided to the Former Member or its successors, Fair Market Value shall be determined by three appraisers, one selected by the Former Member or such Former Member's successors, one selected by the remaining Member, and one selected by the two appraisers so named, provided that if a Member does not select its appraiser within twenty (20) days after demand from the other Member, the appraiser selected by the one Member shall conduct the appraisal itself. The Fair Market Value of the Former Member's interest in Company shall be the average of the two appraisals closest in amount to each other (unless there is only one appraiser, in which case Fair Market Value shall be determined by the one appraiser). Appraisers must have experience valuing publishing companies. Any appraisal shall be completed with sixty (60) days after appointment of the third (or last) appraiser. Appraisal shall take into account all relevant circumstances, including the fact that the Guides are long term projects which will take a significant period of time to complete and realize profit from. Costs of such appraisal shall be borne one-half by the Former Member and one-half by the other interested parties. The purchase price shall be paid by Company or such remaining Member, as the case may be, either: (i) in ten (10) equal annual installments of principal together with interest, commencing to accrue from the date of closing, at the then

current Long-Term Applicable Federal Rate (the "AFR") under Section 1274(d) of the Code for the month in which the first payment is made (or a rate per annum equal to what the AFR would be for such month under Code Section 1274(d) if the AFR is no longer published) to fully amortize such purchase price over such ten (10) payments, with the first payment being due and payable 60 days after closing; or (ii) in full, within 60 days after closing, as Company and/or the remaining Member, as the case may be, may elect in their sole discretion.

12.5 Purchase Terms Varied by Agreement. Nothing contained herein is intended

to prohibit Members from agreeing upon terms and conditions for the purchase by Company or any Member(s) of the Interest of any Member in Company desiring to withdraw or resign, in whole or in part, as a Member (on such terms and conditions as may be agreed upon by the selling Member and Company or the remaining Member(s) as the case may be), nor is anything herein intended to limit or otherwise affect the ability of a Member to demand a return of its contribution to Company as provided in the Act.

ARTICLE 13
TRANSFER AND ASSIGNMENT OF INTERESTS.

13.1 General. Each Member agrees for itself, its assigns and other successors

in interest that none of such Member's Interest nor any interest therein, may be voluntarily or involuntarily sold, transferred, assigned, donated, pledged, hypothecated or otherwise disposed of, gratuitously or for consideration (collectively "Transfer"), except as authorized hereunder or as agreed to in writing by the other Member. Each Member can withhold its consent to any Transfer in its sole and complete discretion. Nothing contained herein shall prohibit Golf from transferring its interest to any Affiliate of Golf.

13.2 Dividends, Splits or Recapitalization. If Company makes any distribution

of Interests with respect to the Interests by way of an Interest dividend or split, or pursuant to any recapitalization, reorganization, consolidation, merger or otherwise, and a Member receives any additional Interest in Company as a result thereof, such additional (or other) Interest shall be subject to the same restrictions and obligations imposed by this Agreement to the same extent and in the same manner as the Interest on which the distributions of such additional (or other) Interests were made.

13.3 Unauthorized Transfers Void. Any disposition of an Interest other than in

accordance with the provisions of this Article 13 shall be void. If a Member assigns any of its Interest in Company without the prior consent of the other Member or otherwise in violation of this Section 13, the purported transferee shall have no rights hereunder, including any right to participate in the management of the business and affairs of Company or to become a Member, and the non-transferring Member shall have the right to purchase the entire interest of the transferring Member on the terms set forth in the Section 13.5.

13.4 Third Party Offers.

13.4.1 No Offers Until All Guides are Published. Neither Member shall

have the right to sell or in any way Transfer any part of its Interest prior to the time the last Golf Guide is

published by Company. Accordingly, the provisions of this Section 13.4 shall only apply to offers received after the time the last Golf Guide is published by Company.

13.4.2 Receipt of Offer. In the event a Member (the "Selling Member")

receives a bona fide written offer (the "Third Party Offer") from a third party (the "Third Party Offeror") desiring, to purchase all or any portion of the Selling Member's Interest (the "Offered Interest") and the Selling Member desires to sell such Offered Interest pursuant to such offer, the Selling Member shall first offer in writing to sell all of its Interest (not just that subject to the Third Party Offer) to the other Member (the "Non-selling Member"), on the terms and conditions described in this Section 13.4.2. Such offer (the "Offer to Sell") pertaining to all of the Selling Member's Interest shall be delivered to the Non-selling Member and Company and shall be accompanied by a true and correct copy of the Third Party Offer.

13.4.3 Non-selling Member First Purchase Right. For a period of thirty

(30) days from the date on which the Non-selling Member receives the Offer to Sell, the Non-selling Member shall have the exclusive right, at its option, to purchase any amount of the Interest of the Selling Member up to the amount of the Offered Interest.

13.4.4 Company Purchase Right. If the Non-selling Member does not,

exercise its right to purchase any of the Selling Member's Interest, or elects to purchase less than all of the Selling Member's Interest which it has a right to purchase within the thirty (30) day period specified in Section 13.4.3 or delivers to the Company and the Selling Member a written waiver of its right to purchase such Interest prior to the expiration of said thirty (30) day period, then for a period of fifteen (15) days from the earlier of the expiration of such thirty (30) day period or receipt of the Non-selling Member's written waiver of its option to purchase such Interest, Company shall have the exclusive right, at its option, to purchase up to that amount of the Selling Member's Interest not being purchased by the Non-selling Member under the terms of this Section 13.4.4.

13.4.5 Manner of Exercise of Option. Any option specified in this Section

may be exercised by the delivery of written notice to Company and the other Member within the required period.

13.4.6 Purchase Price to Non-selling Member and Company. The purchase

price of the Offered Interest under this Section 13.4 shall be the cash price set forth in the Third Party Offer.

13.4.7 Third Party Offer. Any Third Party Offer pursuant to which a

Selling Member desires to sell any Interest must (i) be an offer which contemplates payment of only cash for such Interest, although some cash amount may be paid in installments with interest payable from time to time on the outstanding portion of the purchase price; and (ii) be from a third party who is not related to the Selling Member by blood or marriage or is not a director, officer or beneficial owner of the Selling Member or in any entity in which the Selling Member is an officer, director or beneficial owner. The term "beneficial owner" of any entity for purposes of this Section shall mean any person who is directly or indirectly the owner of more than ten percent (10%) of any class of any equity security of such entity.

13.4.8 Sale to Third Party Offeree. If the Non-selling Member and the

Company fail to exercise their rights under Sections 13.4.3 and 13.4.4, the Selling Member shall be free, for a period of sixty (60) days from the expiration of the fifteen (15) day period specified in Section 13.4.4, to consummate a sale of the Offered Interest to the Third Party Offeror on the same terms and conditions specified in the Third Party Offer. Any Interest so sold to the Third Party Offeror and any Interest retained by the Member shall be held by the Third Party Offeror and the Member pursuant and subject to the terms, conditions and restrictions of this Agreement. Any transfer of the Offered Interest after the expiration of the sixty (60) day period referred to in this Section or the sale of any of the Offered Interest except pursuant to the Third Party Offer for a price and on terms identical to those set forth in the Third Party Offer shall be deemed a transfer pursuant to a new Third Party Offer requiring compliance once again with the terms and conditions of this Section 13.4.

13.4.9 Payment of Purchase Price. Any Interest sold pursuant to this

Agreement shall be purchased at a closing to be held at the principal office of Company. Such closing shall take place within ten (10) days of: (i) expiration of the thirty (30) day period specified in Section 13.4.3 if the Non-selling Member exercises its right to purchase all of the Selling Member's Interest; or (ii) expiration of the fifteen (15) day period specified in Section 13.4.4 if the Selling Member does not exercise its right to purchase all of the Selling Member's Interest. The purchase price to be paid by the purchasing party(ies) shall, at the option of the purchaser(s), be paid in cash or by certified or cashier's check at the closing or in accordance with any other payment terms, including installment payment terms specified in the Third Party Offer.

13.5 Change of Control of Editions; Termination of Nicholas Callaway.

13.5.1 Option. If (i) a Change of Control occurs in the ownership of

Editions or (ii) Nicholas Callaway materially breaches his obligation to provide services to Company as part of the Editions Management Personnel or (iii) Nicholas Callaway's services to Editions (and to Company) otherwise terminate for any reason, including death or disability, other than termination of Mr. Callaway without "Reasonable Cause" (as defined below), or (iv) a party Transfers an interest in violation of this Agreement, then Golf (in the circumstances described in (i), (ii) or (iii) above) or the non-transferring Member (in the circumstances described in (iv) above) has the right to purchase all of the equity held by the other Member at Fair Market Value. Such right must be exercised by notice to the other Member within six (6) months after the Member with such right has actual notice of the event giving rise to the right to purchase. For purposes of the foregoing, "Reasonable Cause" means the failure of Mr. Callaway to perform his services in a manner commensurate with the standards of similar positions within the publishing industry.

13.5.2 Fair Market Value. For purposes of this Section 13.5, Fair Market

Value of an Interest shall be determined as set forth in Section 12.4, with the valuation being made as of the date of the event which gives right to the option under this Section 13.5; however the Member wishing to purchase shall have twenty (20) days following determination of Fair Market Value to elect by written notice to the other Member not to go forward with the purchase, provided that if

such election is not timely made, the purchase shall go forward. Payment shall be made as provided in Section 12.4, within twenty (20) days of the determination of Fair Market Value.

13.5.3 Change of Control. For purposes hereof, a Change of Control of

Editions shall be deemed to have occurred at any time that any of the following have occurred: (i) Nicholas Callaway does not own and control a majority of the voting power and equity of Editions or (ii) Nicholas Callaway cannot elect a majority of the directors of Editions or (iii) Nicholas Callaway is no longer the CEO and Chairman of the Board of Editions. Despite the foregoing, if a Change of Control has not occurred prior to the time that Editions is a public company with shares required to be registered under the Exchange Act of 1934, a Change of Control shall not be deemed to occur so long as, after a public offering of Editions, Nicholas Callaway remains the largest shareholder of Editions and remains as the CEO and Chairman of the Board of Editions and retains the ability to act on behalf of Editions in dealing with Company.

13.6 Further Restrictions on Transfer of Interests. In addition to other

restrictions found in this Agreement, no Member shall assign, convey, sell, encumber or in any way alienate all or any part of its Interest in Company: (i) without registration under applicable federal and state securities laws, or unless he delivers an opinion of counsel satisfactory to Company that registration under such laws is not required; or (ii) if the Interest to be sold or exchanged, when added to the total of all other Interests sold or exchanged in the preceding twelve (12) consecutive months prior thereto, would result in the termination of Company under Code Section 708.

13.7 Substitution of Members. A transferee of an Interest shall have the right

to become a substitute Member only if (i) the requirements of Section 13.1 relating to consent of the other Member and compliance with Sections 13.4 and 13.5 and securities and tax requirements hereof are met, (ii) such person executes an instrument satisfactory to the remaining Members accepting and adopting the terms and provisions of this Agreement, and (iii) such person pays any reasonable expenses in connection with its admission as a new Member. Any transferee of an Interest in Company shall take subject to the restrictions on transfer imposed by this Agreement.

ARTICLE 14

DISSOLUTION AND WINDING UP

14.1 Conditions of Dissolution. Company shall be dissolved, its assets shall

be disposed of, and its affairs wound up on the first to occur of the following: (i) a determination by the vote of all three (3) Managers that Company should be dissolved; (ii) the occurrence of a Dissolution Event, unless the Remaining Member continues Company and purchases the Interest of the Former Member, as provided in Article 12; (iii) sale of all or substantially all of

the assets of Company; (iv) the expiration of the period for the duration of Company term as stated in its Articles; or (v) at such earlier time as may be provided by the Act.

14.2 Statement of Intent to Dissolve. As soon as possible following the

occurrence of any of the events specified in this Article effecting the dissolution of Company, the Managers shall execute a statement of intent to dissolve in such form as shall be prescribed by the Secretary of State of California and file the statement as required by the Act.

14.3 Winding Up. Upon the occurrence of a liquidating event for purposes of

Regulations Section 1.704-1(b), Company shall continue solely for the purpose of winding up its affairs in an orderly manner, liquidating its assets, and satisfying the claims of its creditors. To the extent not inconsistent with the foregoing, all covenants and obligations in this Agreement shall continue in full force and effect until such time as the assets have been distributed and Company has terminated.

14.4 Responsibilities of Managers for Winding Up. The Managers shall be

responsible for overseeing the winding up and liquidation of Company, shall take full account of the liabilities and assets of Company, shall cause its assets to be liquidated as promptly as is consistent with obtaining the fair market value thereof, and shall cause the proceeds therefrom, to the extent sufficient therefor, to be applied and distributed as next provided. During the winding-up process, Net Profits and Net Losses will be allocated and distributions will continue to be shared by the Members in accordance with the provisions of the Articles and of this Agreement. Golf shall have a right of last refusal to purchase any or all of such assets and rights.

14.5 Distributions. Upon any winding up and liquidation of Company, the

proceeds from liquidation, to the extent available, will be applied and distributed by Company as soon as reasonably possible in the following order:

14.5.1 first, to pay the expenses of liquidation and the debts and liabilities of Company (including loans or advances from Members, including the Loan), except the claims of creditors or Members whose obligations will be assumed or otherwise transferred upon liquidation of Company;

14.5.2 second, to establish any reserves which the Managers may deem necessary, appropriate or desirable for any future, contingent or unforeseen liabilities, obligations or debts of Company which are not then payable or have not then been paid. Such reserves may be, but are not required to be, paid over by Company to an independent escrow holder, designated by the Managers, to be held by such escrow holder for the purpose of disbursing such reserves in payment of any of such liabilities, obligations and debts and, at the expiration of such period as the Managers deem necessary, advisable, or desirable, any amount thereafter remaining will be distributed in the manner provided below;

14.5.3 third, to each Member in accordance with and to the extent of the positive balance in its Capital Account after taking into account all Capital Account items and adjustments for the taxable year of such distribution and all allocations that affect the

Member's Capital Accounts, including all items and adjustments related to the winding up and dissolution itself; and

14.5.4 fourth, to the Members in accordance with their respective Percentage Interests.

14.6 Distribution in Kind. Upon any dissolution, the Members may elect by the mutual agreement of both Members to distribute any assets in kind. Upon any such election, all rights to intangibles, Company Rights and royalties shall be distributed to the Members ratably in proportion to the total distributions to be made to each Member. Any Property distributed in kind will be valued at its fair market value and distribution will then proceed as if the property were sold for cash at such value with the resulting gain, income profits and/or loss, expense and deduction allocated as provided in this Agreement.

14.7 Limits. Each Member will look solely to the assets of Company for the payment of any income allocated to such Member and, if the assets of Company remaining after payment or discharge of the debts and liabilities of Company are insufficient to pay all or any part of such amounts, they will have no recourse against another Member, any Manager, or any partner, director, officer, other stockholder, employee or agent of another Member or any Manager.

14.8 Authority After Dissolution. After dissolution, if Company is to be liquidated, the Managers can bind Company only: (i) by any act appropriate for winding up Company affairs or completing transactions unfinished at dissolution; and (ii) by any transaction which would bind Company if dissolution had not taken place, if the other party to the transaction: (a) had extended credit to Company prior to dissolution and had no actual knowledge or notice of the dissolution; or (b) though not so extending credit, had nevertheless known of Company prior to dissolution and had no actual knowledge or notice of dissolution, and a certificate of dissolution had not been filed.

14.9 Accounting. Upon dissolution (if the business of Company is not continued), and again upon the completion of the winding up of the affairs of Company, an accounting of Company will be made and furnished to all Members.

ARTICLE 15 INDEMNIFICATION

15.1 Indemnification of Members and Managers. To the greatest extent not inconsistent with the laws and public policies of California, Company shall indemnify any Member or Manager made a party to any proceeding because such individual is or was a Member or Manager, as a matter of right, against all liability incurred by such individual in connection with any proceeding; provided that it shall be determined in the specific case in accordance with Section 15.7 that indemnification of such individual is permissible in the circumstances

because the individual or entity has met the standard of conduct for indemnification set forth in this Article 15.

15.2 Undertakings for Indemnification. Company shall pay for or reimburse the

reasonable expenses incurred by a Member or Manager in connection with any such proceeding in advance of final disposition thereof if (i) the individual or entity furnishes Company a written affirmation of the good faith belief that he, she or it has met the standard of conduct for indemnification described in Section 15.6, (ii) the individual or entity furnishes Company a written undertaking, executed personally or on such party's behalf, to repay the advance if it is ultimately determined that such individual or entity did not meet such standard of conduct, and (iii) a determination is made in accordance with Section 15.7 that, based upon facts then known to those making the determination, indemnification would not be precluded under this Article 15.

15.3 Required to be General Obligation. The undertaking described above must

be a general obligation of the individual or entity, subject to such reasonable limitations as Company may permit, but need not be secured and may be accepted without reference to financial ability to make repayment. Company shall indemnify a Member or Manager who is wholly successful, on the merits or otherwise, in the defense of any such proceeding, as a matter of right, against reasonable expenses incurred by the individual in connection with the proceeding without the requirement of a determination as set forth in Section 15.7.

15.4 Advancement of Expenses. Upon demand by a Member or a Manager for

indemnification or advancement of expenses, as the case may be, the Managers shall expeditiously determine whether the Member or Manager is entitled thereto in accordance with this Article. The indemnification and advancement of expenses provided for under this Article shall be applicable to any proceeding arising from acts or omissions occurring before or after the adoption of this Article 15.

15.5 Indemnification of Others. Company shall have the power, but not the

obligation, to indemnify any individual or entity who is or was an employee or agent of Company to the same extent as if such individual or entity was a Member or Manager.

15.6 Standards of Conduct for Indemnification. Indemnification of a Person is

permissible under this Article only if (i) he or she or it conducted his, her or its activities in good faith; and (ii) he, she or it reasonably believed that his, her or its conduct was in or at least not opposed to Company's best interest; and (iii) in the case of any criminal proceeding, she, he or it had no reasonable cause to believe the conduct was unlawful. The termination of a proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent is not, of itself, determinative that the Person did not meet the standard of conduct described in this Section.

15.7 Procedures to Determine Indemnification. A determination as to whether

indemnification or advancement of expenses is permissible shall be made by the Members by agreement of all Members (counting only Members not at the time parties to the proceedings); provided that if a Member or Manager is determined not to be entitled to such indemnification

or advance, a Member may require that such determination be reviewed de novo by

special legal counsel selected by the Members by the mutual agreement of
Members.

15.8 Court Order of Indemnification. A Member or Manager of Company who is a

party to a proceeding may apply for indemnification from Company to the court,
if any, conducting the proceeding or to another court of competent jurisdiction.
On receipt of an application, the court, after giving notice the court considers
necessary, may order indemnification if it determines: (i) in a proceeding in
which the Member or Manager is wholly successful, on the merits or otherwise,
the Member or Manager is entitled to indemnification under this Section, in
which case the court shall order Company to pay the Member or Manager his, her
or its reasonable expenses incurred to obtain such court ordered
indemnification; or (ii) the Member or Manager is fairly and reasonably entitled
to indemnification in view of all the relevant circumstances, whether or not the
Member or Manager met the standard of conduct set forth in Section 15.6.

15.9 Indemnification Rights Non-Exhaustive. Nothing contained in this Article

shall limit the exercise or be deemed exclusive of any right under law, by
contract or otherwise, relating to indemnification of or advancement of expenses
to any individual who is or was a Member or Manager of Company or is or was
serving at Company's request as a director, officer, partner, manager, trustee,
employee, or agent of another foreign or domestic Person or other enterprise,
whether for profit or not.

15.10 Construction of Indemnification Rights. Nothing contained in this

Article shall limit the ability of Company to otherwise indemnify or advance
expenses to any individual. It is the intent of this Article to provide
indemnification to Members and Managers to the fullest extent now or hereafter
permitted by the law consistent with the terms and conditions of this Article.
Indemnification shall be provided in accordance with this Article irrespective
of the nature of the legal or equitable theory upon which a claim is made
including without limitation negligence, breach of duty, mismanagement, waste,
breach of contract, breach of warranty, strict liability, violation of federal
or state securities law, violation of the Employee Retirement Income Security
Act of 1974, as amended, or violation of any other state or federal law.

15.11 Insurance for Indemnification. Company may purchase and maintain

insurance for its benefit, the benefit of any individual who is entitled to
indemnification under this Article, or both, against any liability asserted
against or incurred by such individual in any capacity or arising out of such
individual's service with Company, whether or not Company would have the power
to indemnify such individual against such liability.

ARTICLE 16
MISCELLANEOUS

16.1 Complete Agreement. This Agreement and the Articles constitute the

complete and exclusive statement of agreement among the Members. This Agreement
and the Articles replace and supersede all prior agreements by and among the
Members or any of them. This Agreement and the Articles supersede all prior
written and oral statements and no

representation, statement, or condition or warranty not contained in this Agreement or the Articles will be binding on the Members or have any force or effect whatsoever.

16.2 Binding Effect. Subject to the provisions of this Agreement relating to

transferability, this Agreement will be binding upon and inure to the benefit of the Members, and their respective distributees, successors and assigns, but only to the extent the assignment is approved by all Members in accordance with the Act, the Articles and this Agreement.

16.3 No Third Party Beneficiary. This Agreement is made solely and

specifically among and for the benefit of the parties hereto, and their respective successors and assigns subject to the express provisions hereof relating to successors and assigns, and no other person will have any rights, interest, or claims hereunder or be entitled to any benefits under or on account of this Agreement as a third party beneficiary or otherwise.

16.4 Injunctions. Each Member agrees that, in the event of a breach or

threatened breach by such Member of any provisions of Article 7 of this Agreement, Company's (and the other Member's) remedies at law would be inadequate, and Company and the other Member shall be entitled to an injunction (without any bond or other security being required). This will not preclude Company or the other Member from pursuing any action or further remedy, at law or in equity, for any breach or threatened breach of that Article, including the recovery of damages. Each Member acknowledges that Company Rights and Company Information are unique and that it would harm Company and the non-breaching Member irreparably if any such data or information should become known to its competitors or be injected into the public domain, if any Rights should not be disclosed and assigned to Company and its ownership thereof acknowledged or if a Member should otherwise breach its obligations under Article 7.

16.5 Attorneys' Fees Awarded. If an action is brought in connection with this

Agreement, the prevailing party shall be entitled to recover from the losing Members, all of the costs, attorneys' fees, and other expenses incurred by such prevailing Members therein.

16.6 Not For Benefit Of Creditors. The provisions of this Agreement are

intended only for the regulation of relations among Members and Company. This Agreement is not for the benefit of non-Member creditors and does not grant any rights to or confer any benefits on non-Member creditors or any other person who is not a Member, a Manager, or an officer.

16.7 Gender and Number. Common nouns and pronouns will be deemed to refer to

the masculine, feminine, neuter, singular and plural, as the identity of the person or persons, firm or corporation may in the context require. The singular shall include the plural and the masculine gender shall include the feminine and neuter, and vice versa, as the context requires. Any reference to the Code, Regulations, the Act, or other statutes or laws will include all amendments, modifications, or replacements of the specific sections and provisions concerned.

16.8 Headings. All headings are inserted only for convenience and ease of

reference and are not to be considered in the construction or interpretation of any provision of this Agreement.

16.9 References to this Agreement. Numbered or lettered articles, paragraphs

and subparagraphs herein contained refer to articles, paragraphs and
subparagraphs of this Agreement unless otherwise expressly stated.

16.10 Exhibits. All Exhibits attached to this Agreement are incorporated and

shall be treated as if set forth herein.

16.11 Severability. If any provision of this Agreement is held to be illegal,

invalid, or unenforceable under the present or future laws effective during the
term of this Agreement, such provision will be fully severable; this Agreement
will be construed and enforced as if such illegal, invalid, or unenforceable
provision had never comprised a part of this Agreement; and the remaining
provisions of this Agreement will remain in full force and effect and will not
be affected by the illegal, invalid, or unenforceable provision or by its
severance from this Agreement. In lieu of such illegal, invalid, or
unenforceable provision, there will be added automatically as a part of this
Agreement a provision as similar in terms to such illegal, invalid, or
unenforceable provision as may be possible and be legal, valid, and enforceable.

16.12 Additional Documents and Acts. Each Member agrees to execute and deliver

such additional documents and instruments and to perform such additional acts as
may be necessary or appropriate to effectuate, carry out and perform all of the
terms, provisions, and conditions of this Agreement and the transactions
contemplated hereby.

16.13 Notices. Any notice to be given or to be served on Company or any party

hereto in connection with this Agreement must be in writing and will be deemed
to have been given and received when delivered to the address specified by the
party to receive the notice. Such notices will be given to a Member at the
address specified in Exhibit B. A Member or Company may, at any time by giving
5 days' prior written notice to the other Members and Company, designate any
other address as the address to which such notice will be given.

16.14 Amendments. All amendments to this Agreement will be in writing and

signed by all the Members.

16.15 Multiple Counterparts. This Agreement may be executed in several

counterparts, each of which will be deemed an original but all of which will
constitute one and the same instrument. However, in making proof hereof it will
be necessary to produce only one copy hereof signed by the party to be charged.

IN WITNESS WHEREOF, the Members have executed this Agreement as of January 26,
1998.

MEMBERS:

"Golf":

CALLAWAY GOLF COMPANY, a
California corporation

By: /s/ Donald H. Dye

Donald H. Dye
President and Chief Executive Officer

"Editions":

CALLAWAY EDITIONS, INC., a
Delaware corporation

By: /s/ Nicholas Callaway

Nicholas Callaway
President

EXHIBIT A
DEFINED TERMS

"Act" means the Beverly-Killea Limited Liability Company Act of California, as

the same may be amended from time to time.

"Adjusted Capital Account Deficit" means, with respect to any Member, the

deficit balance, if any, in such Member's Capital Account as of the end of the
relevant fiscal year, after giving effect to the following adjustments: (i)
Credit to such Capital Account any amounts which such Member is obligated to
restore or is deemed to be obligated to restore pursuant to the penultimate
sentences of Regulations Section 1.704-2(g)(1) and 1.704-2(i)(5); and (ii) Debit
to such Capital Account the items described in Regulations Sections 1.704-
1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), and 1.704-1(b)(2)(ii)(d)(6). The
foregoing definition of Adjusted Capital Account Deficit is intended to comply
with the provisions of Regulations Section 1.704-1(b)(2)(ii)(d) and shall be
interpreted consistently therewith.

"Affiliate" means any individual, partnership, corporation, trust, or other

entity or association, directly or indirectly, through one or more
intermediaries, controlling, controlled by, or under common control with the
Member. The term "control," as used in the preceding sentence, means, with
respect to a corporation, the right to exercise, directly or indirectly, more
than 50 percent of the voting rights attributable to the controlled corporation,
and, with respect to any individual, partnership, trust, other entity or
association, the possession, directly or indirectly, of the power to direct or
cause the direction of the management or policies of the controlled entity.

"Agreement" means this Operating Agreement, as originally executed and as

amended from time to time.

"Articles" means the Articles of Organization for Company originally filed with

the California Secretary of State, as amended from time to time.

"Bankruptcy" means, and a Member shall be deemed a "Bankrupt Member" upon (i)

the entry of a decree or order for relief against the Member by a court of
competent jurisdiction in any involuntary case brought against the Member under
any bankruptcy, insolvency or other similar law (collectively, "Debtor Relief
Laws") generally affecting the rights of creditors and relief of debtors now or
hereafter in effect; (ii) the appointment of a receiver, liquidator, assignee,
custodian, trustee, sequestrator or other similar agent under applicable Debtor
Relief Laws for the Member or for any substantial part of its assets or
property; (iii) the ordering of the winding up or liquidation of the Member's
affairs; (iv) the filing of a petition in any such involuntary bankruptcy case,
which petition remains undismissed for a period of 180 days or which is not
dismissed or suspended pursuant to Section 305 of the Federal Bankruptcy Code
(or any corresponding provision of any future United States bankruptcy law); (v)
the commencement by the Member of a voluntary case under any applicable Debtor
Relief Law now or hereafter in effect; (vi) the consent by the Member to the
entry of an order for relief in an involuntary case under any such law or to the
appointment of or the taking of possession by a receiver, liquidator, assignee,
trustee, custodian, sequestrator or other similar agent under

any applicable Debtor Relief Laws for the Member or for any substantial part of its assets or property; or (vii) the making by a Member of any general assignment for the benefit of its creditors.

"Book Value" means, with respect to any asset, the asset's adjusted basis for

federal income tax purposes, except as follows: (i) the initial Book Value of any asset contributed by a Member to Company shall be the gross fair market value of such asset, as determined by the Members; (ii) the Book Values of all Company assets shall be adjusted to equal their respective gross fair market values, as determined by the Managers, as of the following times: (a) the acquisition of an additional interest in Company by any new or existing Member in exchange for more than a de minimis Capital Contribution; (b) the distribution by Company to a Member of more than a de minimis amount of Company property as consideration for an interest in the Company if the Managers reasonably determine that such adjustment is necessary or appropriate to reflect the relative economic interests of the Members in Company; or (c) the liquidation of Company within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g); (iii) the Book Value of any Company asset distributed to any Member shall be the gross fair market value of such asset on the date of distribution; and (iv) the Book Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Code Section 734(b) or 743(b), but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulations Section 1.704-1(b)(2)(iv)(m) and other provisions of this Agreement, provided, however, that Book Values shall not be adjusted pursuant to this Item (iv) to the extent the Managers determine that an adjustment pursuant to Item (ii) above is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this Item (iv). If the Book Value of an asset has been determined or adjusted pursuant to this definition, such Book Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Net Profits and Net Losses.

"Capital Account" means an account maintained in accordance with the provisions

of Article 8.

"Capital Contributions" means the total value of cash and fair market value of

property contributed and agreed to be contributed to Company by Members, as shown in Exhibit B, as the same may be amended from time to time. Any reference in this Agreement to the Capital Contributions of a Member shall include all contribution of cash and property previously made by the Member and its predecessor, if any, for the Interest of the Member, reduced by any distributions to the Member (or its predecessor) as a return of "Capital Contributions" as contemplated herein.

"Company" means Callaway Golf Media Ventures, LLC, A California Limited

Liability Company.

"Company Rights; Rights" "Rights" means all: copyrights, ideas, original works

of authorship, rights, discoveries, improvements, trade secrets, patents, trademarks, service marks, concepts, computer programs and software, designs, drawings, specifications,

techniques, models, data, source code, object code, firmware, diagrams, flow charts, mask works, formulas, know-how, developmental or experimental work, other intellectual property, derivatives of any of the foregoing, and all copyright and patent applications and registrations. "Company Rights" means all of the foregoing to the extent of Company's interest therein, including Company's rights under Section 7.3, but subject to the limitations of Section 7.4. Company Rights will not include any Rights of a Member, even if utilized in the Guides, except to the extent of the copyrights in the Guides themselves.

"Company Minimum Gain" has the meaning set forth in Regulations Section 1.704-

2(f). "Company Minimum Gain" refers to the concept that disposition of an item of Company property encumbered by a Nonrecourse Liability, the amount of which exceeds the adjusted tax basis of the property (or Book Value of the property if the property is properly reflected on the books of Company at a value differing from its adjusted tax basis) will generate gain in an amount that is at least equal to such excess. The amount of Company Minimum Gain is determined by computing, with respect to each Nonrecourse Liability of Company, the amount of gain (of whatever character) that would be realized by Company if it disposed of (in a taxable transaction) Company property subject to such liability in full satisfaction thereof (and for no other consideration), and by then aggregating the amounts so computed. The determination of Company Minimum Gain shall be made pursuant to Regulations Section 1.704-2(g). A Member's share of Company Minimum Gain at the end of any Company taxable year shall be determined pursuant to Regulations Section 1.704-2(g).

"Company Nonrecourse Deduction" means any item of loss, deduction or Code

Section 705(a)(2)(B) expenditure attributable to Nonrecourse Liabilities of Company. The amount of Nonrecourse Deductions for a Company taxable year equals the excess, if any, of the net increase in the amount of Company Minimum Gain during such taxable year, over the aggregate amount of any distributions during such year of proceeds of a Nonrecourse Liability that are allocable to an increase in Company Minimum Gain, and shall be determined in accordance with Regulations Section 1.704-2(g).

"Company Information" means, subject to Section 7.4, the following data and

information, whether or not reduced to writing: (i) the names of Company customers and the nature of Company's relationships with such customers; (ii) Company's confidential research and development plans, techniques and materials, price lists, pricing policies, employee files and other financial data; (iii) all Company Rights, databases, documentation, manuals, hardware and software support systems, and methods, techniques or algorithms of organizing or applying the same, including all copyrights and other rights in and to the Guides; (iv) all other trade secret information concerning Company or its operations, products, personnel or business, including all know-how and other confidential information contributed to Company; and (v) any information provided to Company on a confidential basis from third parties.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Depreciation" means, for each fiscal year or other period, an amount equal to

the depreciation, amortization, or other cost recovery deduction allowable with respect to an asset

for such year or other period, except that, if the Book Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such year or other period, depreciation shall be an amount that bears the same ratio to such beginning Book Value as the federal income tax depreciation, amortization, or other cost recovery deduction for such year or other period bears to such beginning adjusted tax basis.

"Dissolution Event" for Company means, with respect to any Member, one or more

of the following: the bankruptcy, dissolution (as to a member that it is an entity) or occurrence of any other event which terminates the continued membership of any Member, unless all the other remaining members consent to continue the business of Company. A Dissolution Event shall be deemed to occur at the option of a non-breaching Member (the "Non-Breaching Member") if a Member breaches a material obligation hereunder (including the contribution of any required capital or providing any required services) and fails to cure such breach within a reasonable period after written notice (which reasonable period will be presumed to be sixty (60) days except for non-curable defaults or unusual circumstance).

"Interest" in Company means the entire ownership interest of a Member in Company

at any particular time, including the right of such Member to any and all benefits to which a Member may be entitled as provided in this Agreement, together with the obligations of such Member to comply with all terms and provisions of this Agreement.

"Managers" shall be those persons designated in the Articles or their successors

who are elected and qualify under this Agreement.

"Member" means each Person (other than any Person who has withdrawn, died,

retired or become bankrupt) who is an initial signatory to this Agreement and each Person who subsequently is a signatory to this Agreement with the consent of all then-current Members. In the case of an Interest held by a trustee, the trust will be considered the Member.

"Member Minimum Gain" is determined by computing the amount of gain (of whatever

character), if any, that would be realized by Company if it disposed of (in a taxable transaction) Company property subject to the Member Nonrecourse Debt in full satisfaction thereof (and for no other consideration). The determination of the amount of Member's share of Member Minimum Gain shall be made pursuant to the principles contained in Regulations Section 1.704-2(i). A Member's share of Member Minimum Gain at the end of any Company taxable year shall be determined pursuant to Regulations Section 1.704-2(i)(5).

"Member Nonrecourse Debt" means any Nonrecourse Debt of Company for which any

Member bears the economic risk of loss within the meaning of Regulations 1.704-2(b)(4). "Nonrecourse Debt" means any Company liability that is considered nonrecourse for purposes of Regulations Section 1.1001-2 without regard to whether such liability is a recourse liability under Regulations Section 1.752-1(a)(2) and any Company liability for which the creditor's right to repayment is limited to one or more assets of Company.

"Member Nonrecourse Deduction" means any item of Company Nonrecourse Deduction

that is attributable to a Member Nonrecourse Debt. The amount of a Member Nonrecourse

Deduction with respect to the Member Nonrecourse Debt for a Company taxable year equals the excess, if any, of the amount of the net increase during such year in the amount of Member Minimum Gain attributable to such Member Nonrecourse Debt, over the aggregate amount of any distributions during such year to the Member that bears the economic risk of loss for the Member Nonrecourse Debt of the proceeds of the Member Nonrecourse Debt that are allocable to an increase in the Member Minimum Gain attributable to such Member Nonrecourse Debt, and shall be determined in accordance with Regulations Section 1.704-2(i)(2).

"Net Cash Flow" means, with respect to any fiscal period, all cash revenues of -----
Company during that period (including interest or other earnings on the funds of Company), less the sum of reserves for the following: (i) all payments of -----
principal and interest on any indebtedness of Company; (ii) all payments for carrying costs or operating costs incurred incident to the operation of Company's business and in accordance with the terms of this Agreement; and (iii) reasonable working capital funds for contingencies incident to the conduct of the Company's business.

"Net Profits" and "Net Losses" means, for each fiscal year or other period, an -----
amount equal to Company's taxable income or loss for such year or period, determined in accordance with Code Section 703(a), and all items of income, gain, loss, or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss, with the following adjustments: (i) Any income of Company that is exempt from federal income tax and not otherwise taken into account in computing Net Profits or Net Losses pursuant to this Section, shall be added to such taxable income or loss; (ii) Any expenditures of Company described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Regulations Section 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Net Profits or Net Losses pursuant to this Section shall be subtracted from such taxable income or loss; (iii) In the event the Book Value of any Company asset is adjusted pursuant to clause (ii), (iii) or (iv) of the definition of Book Value, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Net Profits or Net Losses; (iv) Gain or loss resulting from any disposition of Company property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Book Value of the property disposed of, notwithstanding that the adjusted tax basis of such property differs from its Book Value; (v) In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account depreciation for such fiscal year or other period; and (vi) Despite any other provision of this definition, any items that are specially allocated pursuant to this Agreement shall not be taken into account in computing Net Profits or Net Losses.

"Nonrecourse Liabilities" means liabilities of Company (or portion thereof) for -----
which no Member bears the economic risk of loss.

"Percentage Interest" of a Member means the percentage of such Member set forth -----
opposite the name of such Member under "Member's Percentage Interest" in Exhibit B hereto, as such percentage may be adjusted from time to time pursuant to the terms hereof.

"Person" includes individuals, general partnerships, limited partnerships,

limited liability companies, corporations, trusts, estates, real estate
investment trusts and other entities or associations.

"Regulations" means regulations currently in force as final or temporary that

have been issued by the U.S. Department of Treasury pursuant to its authority
under the Code.

"Special Risk Account" means an account of a Member that at all times will

equal the amount then outstanding under any loan (including the Loan) from the
Member to Company (including principal and interest).

EXHIBIT B

CAPITAL CONTRIBUTIONS; PERCENTAGE INTERESTS

Member -----	Contribution -----	Percentage Interest -----

Callaway Golf Company 2285 Rutherford Road Carlsbad, CA 92008-8815	\$900,000 in cash	80%

Callaway Editions, Inc. 70 Bedford Street New York, New York 10014	\$100,000 in cash and intangible property rights valued at \$125,000	20%

EXHIBIT C
LOAN AGREEMENT

LOAN AND SECURITY AGREEMENT

This Loan Agreement (this "Agreement") is entered into as of January 26, 1998, by and between Callaway Golf Media Ventures, LLC, a California limited liability company ("Borrower"), and Callaway Golf Company, a California corporation ("Lender"). Capitalized terms not otherwise defined will have the meanings assigned to them in Paragraph 10.

1. General Terms of Loans.

(a) The Loans. Lender agrees, subject to and upon the terms and conditions

herein set forth, to make loans (collectively, the "Loans" and, individually, a "Loan") to Borrower up to an aggregate amount of principal and accrued but unpaid interest not to exceed at any one time outstanding Twenty Million Dollars (\$20,000,000) (the "Commitment"). If at any time the aggregate principal amount of all outstanding Loans plus any accrued but unpaid interest thereon exceeds the Commitment, then, notwithstanding anything to the contrary contained herein, Borrower will immediately repay to Lender the full amount of such excess.

(b) Funding.

(1) Loan Schedule. Unless otherwise agreed to by Lender in its sole

and absolute discretion, Loans will be funded according to the schedule and the standards set forth as Exhibit A.

(2) Budgets; Business Plan. At least once every six (6) months,

Borrower shall submit to Lender a budget (each a "Budget") and a business plan (each, a "Business Plan") for the next twelve (12) month period.

(3) Approvals; Conditions. Each Loan will be subject to Borrower

being in compliance with all terms of this Agreement. Without limiting the generality of the foregoing, unless permitted by Lender in its sole discretion, the Loan must be (i) for a purpose permitted by this Agreement, and (ii) for an amount not exceeding the amount specified in the then-current Budget consistent with the then current budget of Borrower.

(c) Optional Prepayments. Borrower may prepay any Loan, in whole or in

part, on three (3) business days' notice to Lender, specifying the date and amount of prepayment. A notice will be irrevocable. Any prepayment will first be applied to interest accrued but unpaid at the date of payment and then to reduce the outstanding principal balance thereof, with any installments of principal credited in reverse order of maturity.

(d) Interest Rates.

(1) Normal Interest Rate. Any Loan made hereunder will bear interest

at a rate equal to ten percent (10%) per annum. Any amount not paid when due shall be added to

principal as of the date due and shall thereafter bear like interest. The outstanding principal balance of all Loans will bear interest from the date made to and including the date of repayment. Interest on the Loans will be computed on the basis of a year of 360 days and the actual number of days elapsed.

(2) Default Rate of Interest. Notwithstanding the provisions of

Paragraph 1.(d)(1), upon the occurrence of an Event of Default hereunder and thereafter, the outstanding principal amount of all Loans will bear interest at a rate per annum of twelve percent (12%) per annum (compounded monthly) from the date of such Event of Default until paid in full (after as well as before judgment).

(3) No Usury. In no contingency or event whatsoever will the

interest rate charged hereunder exceed the highest rate permissible under any law which a court of competent jurisdiction will, in a final determination, deem applicable hereto. If such a court determines that Lender has received interest hereunder in excess of the highest rate applicable hereto, any such excess will first be used to reduce principal outstanding on the Loans and, if no principal is outstanding, Lender will promptly refund such excess interest to Borrower and the provisions hereof will be deemed amended to provide for such permissible rate.

(e) Loan Account. The Loans will be evidenced by an account maintained by

Lender on its books and by one single promissory note (the "Note") dated the date of this Agreement. The date and amount of each Loan made by Lender to Borrower and the date and amount of each payment of principal and interest on Loans will be recorded by Lender on its books and records and on the Note at the time of each Loan or payment, as the case may be. From time to time, Lender will provide Borrower with a statement of advances, charges and payments made pursuant to this Agreement and any other instrument evidencing or describing any Loans made pursuant to this Agreement.

(f) Payments.

(1) Interest. Accrued but unpaid interest shall be payable monthly.

If not otherwise paid by Borrower, such amount shall be deemed paid by having such interest treated as having been advanced as principal upon the due date and then repaid to Lender as a payment of interest.

(2) Principal. Principal shall be payable out of 100% of Net Cash

Flow of Borrower (as defined in the Operating Agreement of Borrower), prior to any distributions to any Member of Borrower other than to cover taxes due on profit allocations of Borrower. In addition, (a) one half of the maximum amount of principal and interest at any time outstanding under the Loans shall be due and payable the earlier of (1) December 31, 2003 and (2) three years after the last Loan is made (the "Interim Principal Payment"); and (b) all principal and accrued but unpaid interest shall be due and payable the earlier of (1) December 31, 2004 and (2) four years after the last Loan is made (the "Final Principal Payment").

(3) No Setoff; Place. Each payment (including each prepayment) to be

made by Borrower hereunder on account of principal, interest, fees and other amounts due hereunder will be made without setoff or counter claim and will be made to Lender at its location at 2285 Rutherford Road, Carlsbad, California 92008, in each case in lawful money of the United States and in immediately available funds not later than 2:00 P.M. (Pacific Standard Time) on the date such payment is due.

(g) Date of Payment. Whenever any date for the payment of principal of, or

interest on, a Loan or of the fees hereunder will fall on a day which is not a business day for Lender, each such payment will be extended to the next succeeding business day.

(h) Taxes.

(1) All payments or reimbursements under this Agreement will be made free and clear of and without deduction for any tax, levy, impost or any other charge against Borrower or its assets of any nature whatsoever. If a tax, levy, impost or other charge is deducted or withheld from any payment or reimbursement under this Agreement, Borrower will pay to Lender, on the date of each such payment, such additional amounts as may be necessary in order that the net amount received by Lender after such deduction or withholding will equal the amount which would have been received if such deduction or withholding were not required.

(2) Borrower will pay directly to the appropriate governmental authority or reimburse or compensate Lender, upon demand by Lender, for all costs incurred, losses suffered or payments made (as determined by Lender in its reasonable discretion) by reason of:

(A) any and all present or future taxes, levies, or imposts or any other charge of any nature whatsoever imposed by any taxing authority on or with regard to any aspect of the transactions contemplated by this Agreement, except such taxes as may be imposed on or measured by Lender's net income in the jurisdiction in which Lender's principal office is located.

(B) compliance by Lender with any law, rule, regulation, direction, requirement or request from any regulatory authority, whether or not having the force of law, in connection with this Agreement or the Commitment or any part thereof.

(3) Borrower will furnish to Lender official receipts or other documentation acceptable to Lender evidencing the payment of all such taxes, fees or other charges which are or may hereafter be imposed on any aspect of these transactions within thirty (30) days after payment of such taxes, fees or other charges.

(i) Use of Funds. The Loans may only be used for publication of the Golf

Guides, as defined in Borrower's Operating Agreement, and related expenditures, and for no other purposes without the approval of Lender, which may be withheld in its sole and absolute discretion.

2. Security Agreement.

(a) Grant. To secure payment and performance of the Obligations, Borrower

hereby grants to Lender a security interest in all tangible and intangible property of Borrower now existing or hereinafter arising or acquired, including without limitation (i) all of Borrower's Inventory, Receivables, Equipment, General Intangibles and other Tangible Personal Property (whether such Inventory, Receivables, Equipment, General Intangibles, or Tangible Personal Property are now owned or existing or hereafter acquired or arising or in which Borrower now has or may hereafter acquire any rights) including all rights of any nature in or to the Golf Guides (including copyrights therein and trade secrets relating thereto), (ii) all property of Borrower now or at any time hereafter in the possession of Lender (including deposit accounts and any credit balances), (iii) all proceeds (including, without limitation, proceeds of any insurance policies, proceeds of proceeds, and claims against third parties) and products of all such Receivables, Inventory, Equipment, General Intangibles, Tangible Personal Property and property of Borrower, (iv) all books and records related to any of the foregoing, and (v) any and all other property of Borrower, whether real or personal, tangible or intangible (all of the foregoing being herein collectively referred to as the "Collateral"). Lender's security interest in the Collateral, and all proceeds and products thereof, will continue in full force and effect until all Obligations have been fully satisfied or the financing arrangements between Lender and Borrower are terminated, whichever will later occur.

(b) Perfection of Security Interest; Protection. Borrower will, at its

expense, perform any and all steps requested by Lender at any time to perfect, maintain, protect, and enforce Lender's security interest in the Collateral, including, without limitation, executing and filing financing or continuation statements and deeds of trust and mortgages, and amendments therein, in form and substance satisfactory to Lender, maintaining complete and accurate stock records and records relating to the Collateral, delivering to Lender warehouse receipts covering any portion of the Collateral located in warehouses and for which warehouse receipts are issued, placing notations on Borrower's books of account to disclose Lender's security interest therein, and taking such other steps as are deemed necessary by Lender to maintain Lender's control of and security interest in the Collateral, and delivering to Lender all letters of credit on which Borrower is named as beneficiary. Lender may file one or more financing statements disclosing Lender's security interest under this Agreement without Borrower's signature appearing thereon. Borrower will pay the costs of, or incidental to, any recording or filing of any financing statements, deeds of trust or other documents, concerning the Collateral. Borrower agrees that a carbon, photographic, photostatic, or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement.

(c) Collateral in Possession of Others. If any Collateral is at any time

in the possession or control of any warehouseman, bailee or any of Borrower's agents or processors, Borrower will notify such warehouseman, bailee, agents or processors of Lender's security interest in such Collateral and, upon Lender's request instruct them to hold all such Collateral for Lender's security interest in such Collateral and, upon Lender's request, execute and deliver

confirmatory written instruments pledging to Lender the Collateral described in any such listings or otherwise; but Borrower's failure to execute and deliver such confirmatory instruments will not affect or limit Lender's security interest or other rights in and to the Collateral.

(d) Charges and Insurance.

(1) To protect or perfect any security interest which Lender is granted hereunder, Lender may, in its sole discretion, discharge any lien or encumbrance or bond the same, pay any insurance, maintain guards, pay any service bureau, or obtain any record and charge the same to Borrower's loan account as a Loan and as part of the Obligations, payable on demand and secured by the Collateral. Lender will be the sole judge of the legality and validity of the foregoing and the amount necessary to discharge the same where applicable.

(2) Borrower will insure in Lender's name all Collateral normally insured against loss or damage by fire, theft, burglary, pilferage, loss in transit and such other hazards as Lender will specify, in amounts, under policies and by insurers acceptable to Lender. Each policy will include a provision requiring thirty (30) days prior written notice to Lender of any cancellation and will show Lender as mortgagee and loss payee in a manner acceptable to Lender. All premiums will be paid by Borrower and the policies will be delivered to Lender within five (5) business days after their issuance to Borrower. If Borrower fails to do so, Lender may (but will not be required to) procure such insurance and charge the cost thereof to Borrower's loan account as a Loan and as part of the Obligations, payable on demand and secured by the Collateral.

(e) Examination of Records; Reporting. Lender may at all times have access

to, examine and inspect the Collateral and have access to inspect, audit and make extracts from all of Borrower's records, files and books of account. Borrower will deliver to Lender any instrument necessary for Lender to obtain records from any service bureau maintaining records for Borrower. All instruments and certificates prepared by Borrower showing the value of any of the Collateral will be accompanied, upon Lender's request, by copies of related purchase orders and invoices. Lender may, at any time, remove from Borrower's premises Borrower's books and records or require Borrower to deliver to Lender all such books and records and Lender may, without cost or expense to Lender, use such personnel, supplies and premises of Borrower as may be reasonably necessary for the handling of collections.

(f) Collateral Reporting; Maintenance of Collateral; Return of Inventory.

(1) Upon request from Lender from time to time, promptly after the creation of any Receivables, Borrower will deliver to Lender schedules of all Receivables created or acquired by Borrower and will execute and deliver confirmatory written assignments of such Receivables to Lender, but Borrower's failure to execute and deliver such schedules and/or assignments describing all Receivables to Lender will not affect or limit Lender's security interest or other rights in and to the Receivables. During the term of this Agreement, Borrower will not

permit any lien, claim or encumbrance (other than those in Lender's favor) to remain against any of the Collateral.

(2) If requested by Lender from time to time, if any Receivable becomes evidenced by a promissory note, trade acceptance or any other instrument for the payment of money, Borrower will immediately deliver such instrument to Lender, appropriately endorsed to Lender, and, regardless of the form of presentment, demand, notice of dishonor, protest, and notice of protest with respect thereto, Borrower will remain liable thereon until such instrument is paid in full.

(3) Borrower will keep and maintain the Equipment in good operating condition and repair and will make all necessary replacements thereof so that the value and operating efficiency thereof will at all times be maintained and preserved; will promptly inform Lender of any additions to or deletions from the Equipment; and will not permit any such items to become a fixture to real estate or an accession to other personal property. Borrower will, immediately, on demand therefor by Lender, deliver to Lender any and all evidences of ownership of any of the Equipment (including, without limitation, certificates of title and applications for title). Lender may at all times have access to, examine and inspect the Equipment.

(g) Collection of Receivables; Proceeds of Payments.

(1) After the occurrence of an Event of Default, but only when permitted by Section 8(b), all Receivables and other payments in respect of Collateral collected by Borrower will be held by Borrower as Lender's trustee, and Borrower will immediately deliver all such payments to Lender in their original form duly endorsed in blank. After the occurrence of an Event of Default, but only when permitted by Section 8(b), Lender or its designee may, at any time, notify account debtors that the Receivables have been assigned to Lender and of Lender's security interest therein, and may collect them directly and charge the collection costs and expenses to Borrower's loan account.

(2) After the occurrence of an Event of Default, but only when permitted by Section 8(b), if sales of Inventory are made for cash, Borrower will immediately deliver to Lender the identical checks, cash or other forms of payment which Borrower receives.

(3) All payments received by Lender on Receivables or as proceeds of other Collateral will be the sole property of Lender and will be credited to Borrower's loan account (conditional upon final collection) after allowing two (2) business days for collection.

(4) If Borrower repays the Obligations in full at any time hereafter, such payment will be credited (conditional upon final collection) to Borrower's loan account with Lender five (5) business days after Lender's receipt thereof.

(h) Lender As Borrower's Attorney. Borrower appoints Lender, or any other

person whom Lender may designate, as Borrower's attorney with power: to endorse Borrower's name on any checks, notes, acceptances, money orders, drafts or other forms of payment or security that come into Lender's possession; to sign Borrower's name on any invoice or bill of lading relating to any Receivable, on drafts against customers, on schedules and assignments of Receivables, on notices of assignment, financing statements and other public records (including UCC filings), on verifications of accounts and on notices to customers or account debtors; to notify the post office authorities, after the occurrence of an Event of Default (but only when permitted under Section 8(b)), to change the address for delivery of Borrower's mail to an address designated by Lender; to receive, open and dispose of all mail addressed to Borrower; to send requests for verification of Receivables to customers or account debtors; and to do all things necessary to carry out this Agreement. Borrower ratifies and approves all acts of such attorney. Neither Lender nor the attorney will be liable for any acts or omissions nor for any error of judgment or mistake of fact or law. Borrower agrees to reimburse Lender upon demand for any costs and expenses, including, without limitation, reimbursable attorneys' fees, which Lender may incur while acting as Borrower's attorney-in-fact hereunder, all of which cost and expense are included in the Obligations secured hereby. This power, being coupled with an interest, is irrevocable until the Obligations have been fully satisfied or the financing arrangements between Lender and Borrower are terminated, whichever will later occur.

(i) Receivables. Lender will retain its security interest in all

Receivables until all Obligations have been fully satisfied. Borrower will notify Lender promptly of all returns and recoveries and, on request deliver the merchandise returned or recovered to Lender. Borrower will also notify Lender promptly of all disputes and claims and settle or adjust them at no expense to Lender, but no discount, credit or allowance will be granted to any customer or account debtor and no returns of merchandise will be accepted by Borrower without Lender's consent, except for discounts, credits and allowances made or given in the ordinary course of Borrower's business. Lender may, at all times after the occurrence of an Event of Default (but only when permitted by Section 8(b)), settle or adjust disputes and claims directly with customers in amounts and upon terms which Lender considers advisable and, in all cases, Lender will credit Borrower's loan account with only the net amounts received by Lender in payment of any Receivables.

(j) Inventory; Equipment and Other Collateral.

(1) Borrower represents and covenants that all Inventory is and will continue to be owned by Borrower free and clear of all liens, claims and encumbrances (other than those in Lender's favor) and that Borrower will not, without Lender's prior written approval, sell, encumber or dispose of or permit the sale, encumbrance or disposal of any Inventory, except for the purposes of sale of Inventory to buyers in the ordinary course of Borrower's business.

(2) Borrower represents and covenants that all Equipment and other Collateral will continue to be owned by Borrower, free of all liens, claims and encumbrances (other than

those in Lender's favor), that all Equipment and Tangible Personal Property will be kept by Borrower at the premises located at the principal address of Borrower in New York (except for motor vehicles operated off-premises in the ordinary course of business) and that Borrower will not, without Lender's prior written approval, remove the Equipment or Tangible Personal Property therefrom except for purposes of sale, lease, transfer or other disposition in accordance with the limitations of this Agreement.

3. Conditions Precedent.

(a) Effectiveness of Agreement. This Agreement will not be effective or

binding upon Lender unless and until the following conditions are met:

(1) Borrower will have delivered or caused to be delivered to Lender:

(A) A duly executed copy of this Agreement;

(B) A duly executed copy of such UCC-1 financing statements as Lender may request; and

(C) A duly executed copy of the Note.

(2) Lender will have received satisfactory evidence that all insurance required hereunder, including all insurance required by this Agreement has been obtained and is in full force and effect.

(3) Lender will have received satisfactory evidence that its security interest in the Collateral is a first lien on all such Collateral.

(4) All acts, conditions and things (including, without limitation, the obtaining of any necessary regulatory approvals and the making of any required filings, recordings or registrations) required to be done and performed and to have happened precedent to the execution, delivery and performance of this Agreement and to constitute the same legal, valid and binding obligations of Borrower, enforceable in accordance with their respective terms, will have been done and performed and will have happened in compliance with all applicable laws.

(5) All documentation, including, without limitation, documentation of proceedings of Borrower's Members or Managers and all instruments in connection with the transactions contemplated by this Agreement will be satisfactory in form and substance to Lender and Lender will have received any and all further information and documents, which Lender and such counsel may reasonably have requested in connection therewith, such documents where appropriate to be certified by proper authorities and the President of Borrower.

(b) All Loans. Prior to the extension of credit to Borrower by Lender

under each Loan, the following further conditions precedent must be met, on and as of the date of such Loan:

(1) All representations and warranties of Borrower to Lender set forth herein will be accurate and complete in all respects as of such date as if made on such date;

(2) There will not have occurred or be threatened (i) a material and adverse change in Borrower's financial condition or (ii) any condition, event or act which would materially and adversely affect Borrower's business or Borrower's ability to repay any Loan;

(3) The aggregate principal amount of Loans to Borrower outstanding (including the principal amount of the Loan to be made on such date) plus the amount of any accrued but unpaid interest thereon will not exceed the Commitment;

(4) There will not have occurred an Event of Default hereunder or an event which with the giving of notice or passage of time, or both, would constitute an Event of Default hereunder;

(5) The Loans (including the use of proceeds thereof) will not violate any applicable law or governmental regulation (including without limitation Regulations G, T and X of the Board of Governors of the Federal Reserve System) and will not subject Lender to any tax, penalty, liability or other onerous condition under or pursuant to any applicable law or governmental regulation, and Lender will have received such certificates or other evidence as it may request to establish compliance with this condition.

Each time a Loan is made, Borrower represents and warrants as to the accuracy of the matters set forth above.

4. General Representations and Warranties of Borrower. As an inducement to

Lender to enter into this Agreement and to make the Loans provided for herein, and in addition to all representations and warranties set forth elsewhere in this Agreement, Borrower represents and warrants to Lender and agrees as follows:

(a) Organization, Qualification, Etc. Borrower is a limited liability

company duly organized, validly existing and in good standing under the laws of the State of California and is authorized to do business in New York and in all other jurisdictions in which its ownership of property or conduct of business legally requires such authorization and has full power, authority and legal right to own its properties and assets and to conduct its business as presently conducted or proposed to be conducted. Borrower does not otherwise directly or indirectly control any other entity.

(b) Capacity. Borrower has full power, authority and legal right to

execute and deliver, and to perform and observe the provisions of this Agreement and all other documents, instruments and agreements required hereunder and to carry out the transactions contemplated hereby and thereby.

(c) Authority. The execution, delivery and performance by Borrower of this

Agreement and all other documents, instruments and agreements to be executed in connection herewith have been duly authorized by all necessary action, and when duly executed and delivered, will be legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their terms. No registration with, or consent or approval of, or notice to, or other action by, any trustee or holder of any Indebtedness or obligation of Borrower or any other Person to the execution, delivery and performance of this Agreement or the borrowings hereunder is required or, if required, such registration has been made, such consent or approval given, such notice given or such other appropriate action taken and certified copies of such have been delivered to Lender. The grant of a security interest, along with all action required to fully perfect Lender's security interest in and to the Collateral, which action has been taken and completed, creates and constitutes a valid and perfected first priority security interest in the Collateral enforceable against all third parties in all jurisdictions securing payment of all obligations purported to be secured.

(d) Compliance. The execution and delivery of this Agreement and all other

documents and instruments to be executed or delivered herewith and compliance with their terms as contemplated herein will not under any indenture, agreement, order, judgment or other instrument to which Borrower is a party or by which Borrower or its property may be bound or affected, or under Borrower's Articles of Organization or Operating Agreement, result in a breach of any of the terms or conditions of such indenture agreement, order, judgment or instrument, or result in the imposition of any lien, charge or encumbrance upon any properties of Borrower pursuant to or constitute a default (with due notice or lapse of time or both) or result in an occurrence of an event pursuant to which any holder or holders of Indebtedness may declare the same due and payable, and will not violate any provision of applicable law.

(e) Absence of Certain Changes or Events. Since its formation, Borrower

has not: (i) suffered any material adverse change in its financial condition or in the operations of its business; (ii) suffered any damage, destruction or loss, whether covered by insurance or not, materially and adversely affecting its properties or business; (iii) made any distribution on or in respect of its membership interests or declared any direct or indirect redemption, retirement, purchase or other acquisition by Borrower of such interests except for distributions to Members to pay taxes of Members on income of Borrower; (iv) made any change in the accounting methods or practices it follows, whether for general financial or tax purposes, or any change in depreciation or amortization policies or rates adopted therein; (v) sold, leased, abandoned or otherwise disposed of any real property or any machinery, equipment or other operating property other than in the ordinary course of business; (vi) sold, assigned, transferred, licensed or otherwise disposed of any patent, trademark, servicemark, tradename, brand name, copyright (or

pending application for any patent, trademark, servicemark or copyright), invention, process, know-how, formulae or trade secret or interest thereunder or other intangible asset other than in the ordinary course of business; (vii) suffered any labor dispute, other than routine matters, none of which is material; (viii) engaged in any activity or entered into any material commitment or transaction (including without limitation any borrowing or capital expenditure) other than in the ordinary course of business; (ix) incurred any liabilities except in the ordinary course of business and consistent with past practice; (x) permitted or allowed any of its property or assets to be subjected to any mortgage, deed of trust, pledge, lien, security interest or other encumbrance of any kind; (xi) made any capital expenditure or commitment for additions to property, plant or equipment except in the ordinary course of business; (xii) except as authorized by Borrower's Operating Agreement, paid, loaned or advanced any amount to, or sold, transferred or leased any properties or assets to, or entered into any agreement or arrangement with any of its officers, directors or stockholder or any affiliate or associate of any of the foregoing; or (xiii) taken or agreed to take any action which would constitute a breach of any of the representations contained in this Agreement.

(f) Litigation. There are no actions, suits or proceedings (whether or not

purportedly on behalf of Borrower) pending, or to the knowledge of Borrower threatened, against or affecting Borrower or any of its properties at law or in equity or before or by any person, which, if adversely determined, would have a material adverse effect on the business, properties or financial condition of Borrower or which might materially affect the ability of Borrower to perform its obligations hereunder or any other document, instrument or agreement issued in connection herewith. Borrower is not in default with respect to any applicable laws and/or regulations which affect the operations and/or financial condition of Borrower nor is Borrower in default with respect to any order, writ, injunction, demand or decree of any court or any Person or in default under any indenture, agreement or other instrument to which Borrower is a party or by which Borrower or any of its properties may be bound, default under which might have consequences which might adversely affect the business, properties or financial condition of Borrower or which might affect the ability of Borrower to perform its obligations hereunder or any other document, instrument or agreement issued in connection herewith.

(g) Title and Related Matters. Borrower has good and marketable title to

all its properties, interests in properties and assets, real and personal, including without limitation the Collateral, free and clear of all mortgages, liens, pledges, charges or encumbrances of any kind or character, except the lien of current taxes not yet due and payable. The equipment of Borrower necessary to the operations of its business is in good operating condition and repair. All real or personal property leases to which Borrower is a party are valid, binding, enforceable and effective in accordance with their respective terms. There is not under any of such leases any existing material default or event of default or event which, with notice or lapse of time or both, would constitute a material default.

(h) Patents, Trademarks, Tradenames, Copyrights, Know-How and other

Proprietary Rights.

(1) Borrower owns all right, title and interest in and to all patents, copyrights, technology, software, know-how, processes, trade secrets, trademarks, servicemarks and tradenames used in or necessary for the conduct of Borrower's business as presently conducted or contemplated (including all right, title and interest in the Golf Guides), free and clear of all liens, mortgages, charges, pledges, claims and encumbrances. All of Borrower's trademark or tradename registrations related to any and all of Borrower's copyrights in any of Borrower's Products are valid and in full force and effect, except that not all such copyrights have been registered with the U.S. copyright office; and consummation of the transactions contemplated hereby will not alter or impair any such rights. No claims have been asserted against Borrower by any person challenging Borrower's use or distribution of, any patents, trademarks, tradenames, servicemarks, copyrights, trade secrets, software, technology, know-how or processes utilized by Borrower or challenging or questioning the validity or effectiveness of any license or agreement relating thereto. There is no valid basis for any claim of the type specified in the immediately preceding sentence which could in any material way relate to or interfere with the continued enhancement and exploitation by Borrower of any of Borrower's Products. None of Borrower's Products nor the use of any patents, trademarks, servicemarks, tradenames, copyrights, software, technology, know-how or processes by Borrower in its current business infringes on the rights of, constitutes misappropriation of, or in any way involves unfair competition with respect to, any proprietary information or intangible property right of any third person or entity, including without limitation any patent, trade secret, copyright, trademark, servicemark or tradename.

(2) Except as to rights which may arise after the date of this Agreement and are disclosed to Lender prior to advances being made hereunder after such rights arise, no third party has any right, title or interest in or to Borrower's Products.

(3) Except as to rights which may arise after the date of this Agreement and are disclosed to Lender prior to advances being made hereunder after such rights arise, no third party has any right to manufacture, reproduce, distribute, market or exploit any of Borrower's Products or any adaptations, translations, or derivative works based on Borrower's Products or any portion thereof. No third party has any right to manufacture, reproduce, distribute, market or exploit any works or materials of which any of the Borrower's Products are a "derivative work" as that term is defined in the United States Copyright Act, Title 17, U.S.C. Section 101.

(4) For purposes of this Agreement, the term "Borrower's Products" will mean the Golf Guides and any other books, multimedia products or other materials marketed, published, distributed, packaged or otherwise exploited by Borrower or under development, including all patents, trade secrets, copyrights, trademarks, servicemarks, tradenames, trade dress, processes, inventions, know-how and other proprietary rights related thereto.

(5) No employee of Borrower is in violation of any term of any employment contract, nondisclosure agreement or any other contract or agreement relating to the relationship

of any such employee with Borrower or any other party because of the nature of the business conducted by Borrower or proposed to be conducted by Borrower.

(i) Employee Benefit Plans. There is no unfunded prior service cost with

respect to any bonus, deferred compensation, pension, profit-sharing, retirement, stock purchase, stock option, or other employee benefit or fringe benefit plans, whether formal or informal, maintained by Borrower. Each bonus, deferred compensation, pension, profit-sharing, retirement, stock purchase, stock option, and other employee benefit or fringe benefit plans, whether formal or informal, maintained by Borrower conforms to all applicable requirements of the Employees Retirement Income Security Act of 1974, as amended, to the extent that failure to so conform would have a material adverse effect on Borrower.

(j) Insurance. Borrower has all insurance required by this Agreement and

all insurance is in such amounts as are reasonable and adequate against all risks usually insured against by persons operating similar properties in the localities where such properties are located under valid and enforceable policies issued by insurers of recognized responsibility and such policies will not in any way be affected by, or terminate or lapse by reason of this Agreement or the transactions contemplated herein.

(k) Governmental Authorizations and Regulations. All licenses, franchises,

permits and other governmental authorizations held by Borrower are valid and sufficient for the business presently carried on by Borrower. The business of Borrower is not being conducted in violation of any law, ordinance or regulation of any governmental entity, except for violations which either singly or in the aggregate do not and will not have a material adverse effect on such business.

(l) Taxes. Borrower has filed or caused to be filed all tax returns which

are required to be filed by it, pursuant to the laws, regulations or orders of each person with taxing power over Borrower or the assets of Borrower. Borrower has paid, or made provision for the payment of, all taxes which have or may have become due pursuant to said returns or otherwise or pursuant to any assessment received by Borrower, except such taxes, if any, as are being contested in good faith and as to which adequate reserves (determined in accordance with generally accepted accounting principles and practices) have been provided. The charges, accruals and reserves in respect of income taxes on the books of Borrower are adequate (determined in accordance with generally accepted accounting principles and practices). Borrower knows of no proposed tax assessment against it and no extension of time for the assessment of federal, state or local taxes of Borrower is in effect or has been requested except as disclosed to Lender in writing.

(m) Accurate Information. All information heretofore, herein or hereafter

supplied to Lender by or on behalf of Borrower, including information with respect to the Collateral, is and will be accurate and complete. No statements by Borrower contained in this Agreement and the Exhibits attached hereto or any written statement or certificate furnished or to be furnished pursuant hereto or in connection with the transactions contemplated hereby and thereby contains

any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances under which they were made.

(n) Use of Proceeds. Borrower will use the proceeds of the Loans only for

the purposes permitted by this Agreement.

(o) Capital. Borrower now has capital sufficient to carry on its business

and transactions and all business and transactions in which it is about to engage and is now solvent and able to pay its debts as they mature.

(p) Title to Collateral. Borrower has good, indefeasible, and merchantable

title to and ownership of the Collateral, free and clear of all liens, claims, security interests, and encumbrances except those of Lender. With respect to each item of the Collateral, Lender's security interest therein constitutes a first lien, with priority over all other interests or liens upon such item of Collateral;

(q) Compliance With Laws. Borrower is not in violation of any applicable

statute, regulation or ordinance of any governmental entity, including, without limitation, the United States of America, any state, city, town, municipality, county or of any other jurisdiction, or of any agency thereof, in any respect materially and adversely affecting the Collateral or Borrower's business, property, assets, operations or condition, financial or otherwise.

(r) No Defaults. Borrower is not in default with respect to any note,

indenture, loan agreement, mortgage, lease, deed, agreement relating to the borrowing of monies or other material agreement to which Borrower is a party or by which Borrower is bound.

(s) ERISA Compliance. Borrower has received no notice that it is not in

full compliance with any of the requirements of the Employee Retirement Income Security Act of 1974, as amended, ("ERISA") and the regulations promulgated thereunder and, to the best of its knowledge, there exists no event described in Section 4043 of ERISA, excluding subsections 4043(b)(2) and 4043(b)(3) thereof, with respect to Borrower.

(t) Location of Offices. The offices and/or locations where Borrower

keeps the Collateral (except for that Inventory which is in transit) and its books and records concerning the Collateral are at 70 Bedford Street, New York, New York 10014 and include and correctly designate Borrower's chief executive offices and places of business and are Borrower's sole offices and places of business.

(u) Principal Place of Business; Location of Collateral. Borrower's

principal place of business is located at 70 Bedford Street, New York, New York 10014. The locations of Borrower's Equipment and Inventory as well as the locations of Borrower's books and records are at such location.

5. Affirmative Covenants of the Borrower. Until payment in full of the

Obligations or the financing arrangements between Lender and Borrower are terminated, whichever will later occur, Borrower agrees that:

(a) Financial Statements and Reports. Borrower will furnish to Lender:

(1) As soon as practicable after the end of each fiscal year of Borrower, and in any event within sixty (60) days thereafter, a complete, certified copy of its annual report which will include the balance sheet of Borrower as of the close of the fiscal year, and the income statement for such year, prepared in accordance with generally accepted accounting principles consistently applied; if requested by Lender, such statements shall be audited by certified public accountants selected by Borrower and satisfactory to Lender, in its sole discretion, and contain the unqualified opinion of such accountants, provided that Lender shall pay the cost of such audit;

(2) As soon as available but no later than thirty (30) days after the close of each calendar month Borrower's unaudited balance sheet as of the close of such month and its statements of income and changes in financial position for that portion of the fiscal year ending with such month, certified by the President of Borrower as being complete and correct, prepared in accordance with generally accepted accounting principles (but without notes or normal year-end adjustments), and fairly presenting Borrower's financial condition and results of operations;

(3) Immediately upon its preparation, any application or claim for any patent, trademark, servicemark, copyright or tradename which Borrower uses or intends to make use of in its business;

(4) Immediately upon the opening or use of any new location for any Collateral or upon the removal of any Collateral from its locations described herein to any other location, a revised schedule showing the new location or locations of such Collateral; and

(5) Promptly, such other financial information as Lender may reasonably request.

(b) Maintain Accuracy of Representations and Warranties. Borrower will

maintain the accuracy of all representations and warranties as if such representations were being made on a continuing basis.

(c) Other Information. Borrower will (1) maintain accurate books and

records concerning its business; (2) furnish to Lender such information statements, lists of property and accounts, schedules listing all patents, trademarks, servicemarks, copyrights or tradenames which will be used in Borrower's business to a substantial degree, whether or not any application or claim therefor is prepared or filed with the proper authorities, budgets, forecasts or reports as

Lender may reasonably request with respect to the business, affairs and financial condition of Borrower; and (3) permit Lender or representatives thereof at any reasonable time or times to inspect the properties of Borrower and to inspect, audit and examine the books or accounts of Borrower and to make copies thereof and to take extracts therefrom and to discuss Borrower's business and financial condition with accountants, officers and directors of Borrower.

(d) Expenses. Immediately upon demand of Lender, Borrower will pay all

out-of-pocket expenses of Lender (including, but not limited to, fees and disbursements of Lender's counsel) incident to the performance of any services or the provision of any product in connection with this Agreement or the protection of the rights of Lender under this Agreement, and the enforcement of payment of the Obligations, whether by judicial proceedings or otherwise. All expenses incurred by Lender under this Paragraph will be deemed Loans hereunder, secured by the Collateral and payable upon demand. The obligations of Borrower under this Paragraph will survive payment of the Obligations and the termination of this Agreement.

(e) Notification. Borrower will notify Lender promptly, by written notice,

of any condition or event which has resulted or might result in (1) a material adverse change in Borrower's financial condition or operations; (2) a breach of or noncompliance with any term, condition or covenant contained herein or in any document delivered pursuant hereto; (3) any representation or warranty becoming inaccurate or incomplete if given as of such date; or (4) any Event of Default, or any event which upon lapse of time or notice or both would become an Event of Default. For purposes of item (1) of this notification provision, Borrower need notify Lender only of conditions or events which alone or which taken together with other conditions and events existing at the notification date would materially adversely change Borrower's financial condition or operations in the amount of \$25,000 or more.

(f) ERISA Reports. If Borrower is or becomes at any time subject to ERISA

reporting requirements, Borrower will furnish to Lender: (1) as soon as possible and in any event within thirty (30) days after Borrower knows or has reason to know that any Reportable Event with respect to any Plan has occurred, a statement of the chief financial officer of Borrower setting forth details as to such Reportable Event and the action which Borrower proposes to take with respect thereto, together with a copy of the notice of such Reportable Event given to the Pension Benefit Guaranty Corporation, if a copy of such notice is available to Borrower; (2) promptly after the filing thereof with the United States Secretary of Labor or the Pension Benefit Guaranty Corporation copies of each annual report with respect to each Plan; and (3) promptly after receipt thereof a copy of any notice Borrower or any member of the Controlled Group may receive from the Pension Benefit Guaranty Corporation or the Internal Revenue Service with respect to any Plan; provided, however, that this Paragraph 5(f) will not apply to notices of general application promulgated by the Pension Benefit Guaranty Corporation or the Internal Revenue Service.

(g) Insurance. Without limiting Borrower's insurance obligations with

respect to the Collateral as provided in Paragraph 2(d), Borrower will at all times keep its insurable properties adequately insured and maintain insurance to such extent and against such risks as is customary for companies of comparable size in the same or a similar business and property in the same general areas.

(h) Litigation. Borrower will promptly give notice to Lender in writing of

any proceedings (whether or not purportedly on behalf of Borrower) against Borrower involving amounts in excess of \$50,000, any substantial claim or dispute which may exist between Borrower and any Person, any labor controversy resulting in or threatening to result in a strike against Borrower, or any proposal by any public authority to acquire a material portion of the assets or business of Borrower. Borrower will further appear in and defend any action or proceeding which may affect its title to or Lender's interest in the Collateral.

(i) Other Debt. Borrower will promptly pay and discharge any and all

Indebtedness whether for borrowed money or otherwise, liens, charges, all taxes and assessments or obligations when due, and before any penalties accrue thereon, and lawful claims which, if unpaid, might become a lien or charge upon the property of Borrower, except such as may in good faith be contested or disputed or for which arrangements for deferred payment have been made, provided appropriate reserves are maintained to the satisfaction of Lender in accordance with generally accepted accounting principles and practices for the eventual payment thereof. If it is found that such indebtedness, obligation or tax is an Indebtedness, obligation or tax payable by Borrower, when such dispute or contest is settled and determined, Borrower will promptly pay the full amount then due.

(j) Maintenance of Existence. Borrower will preserve and maintain its

legal existence and all rights, privileges and franchises necessary or desirable in the normal conduct of its business, will conduct its business in an orderly, efficient and regular manner, and will comply with all applicable laws and regulations of any Person and the terms of any indenture, contract or other instrument to which it may be a party or under which it or its properties may be bound if failure to so comply would have a material adverse effect on the business, properties or condition (financial or otherwise) of Borrower. Borrower will take all action necessary to qualify and will be authorized by the proper authorities to conduct its business in all jurisdictions in which its ownership of property or conduct of business legally requires such authorization.

(k) Cooperation. From time to time Borrower will execute and deliver or

cause to be executed and delivered to Lender any and all instruments, documents and agreements and do or cause to be done any and all other acts reasonably deemed necessary by Lender to effect the provisions and purposes of this Agreement and the documents, instruments and agreements referred to herein.

(l) Other Agreements. Borrower will observe and perform all covenants and

agreements of any document, instrument or agreement executed by Borrower in connection with the transactions contemplated hereby.

(m) Additional Payments. If any applicable law, regulation or guideline

or any interpretation thereof by any governmental authority charged with the administration thereof, or any change therein, subjects Lender to any tax of any kind whatsoever with respect to any Loan or other Obligation of Borrower to Lender hereunder, or changes the basis of taxation of payments to Lender of principal or interest payable on any such Loans or other Obligations (except for changes in the rate of tax based solely on the overall net income of Lender) or imposes, modifies or deems applicable any reserve requirement against assets held by or deposits or other liabilities in or for the account of, or loans by, Lender or imposes on Lender, directly or indirectly, any of the conditions affecting such advance or the cost of U.S. dollar deposits obtained by Lender in the interlender market, and the result of any of the foregoing is to increase the cost to Lender of making or maintaining such Loans or other Obligations by an amount which Lender deems to be material, then Borrower will pay to Lender upon its demand the additional amount or amounts necessary to compensate Lender for such additional cost. Absent manifest error, Lender's statement will be conclusive as to any additional amount to be paid. Borrower will pay to Lender all principal of and interest on any Loan or other Obligation free and clear of any and all present and future taxes, levies, imposts, duties, deductions, withholdings and fees. If Borrower is or may become required to pay any such costs, Borrower may elect to prepay any outstanding Loans or other Obligations, together with any such costs and any additional costs associated with such prepayment, including without limitation any losses associated with redeployment of prepaid amounts at rates different from that borne by such prepaid Loans or other Obligations.

6. Negative Covenants of Borrower. Until all Obligations of Borrower to Lender

will have been paid in full, or the financing arrangements between Lender and Borrower are terminated, whichever will later occur, without the prior written consent of Lender, Borrower will not:

(a) Collateral. Waive, amend or vary the terms of any Collateral, or

consent to the termination or rescission thereof, or waive or consent to a postponement of strict compliance on the part of any obligor with any term, provision or covenant of any Collateral, or forbear or grant, in any other manner, indulgence to any obligor.

(b) Distributions. (i) Make any distributions whatsoever upon any of

Member's interests in Borrower, other than distributions to pay for taxes on Borrower's income, (ii) make any other distributions of Borrower's property or assets whatsoever or (iii) pay distributions upon any of Borrower's interests at any time or in any manner which is contrary to or not in compliance with applicable law.

(c) Material Claims. Institute any material litigation against any third

party or settle any material litigation or claim with any third party.

(d) Liens. Create, incur, assume or suffer to exist any lien (including

any encumbrance or security interest) of any kind upon any of its assets, whether now owned or hereafter acquired, except in favor of Lender and (i) Liens for taxes, assessments or other governmental charges or levies not at the time delinquent or thereafter payable without penalty or being contested in good faith, provided provision is made to the satisfaction of Lender for the eventual payment thereof; if it is found that such is payable by Borrower; (ii) Liens of carriers, warehousemen, mechanics, materialmen and landlords incurred in the ordinary course of business for sums not overdue; and (iii) Purchase money liens (including vendor's rights under purchase contracts under an agreement whereby title is retained for the purpose of securing the purchase price thereof) given simultaneously with or within ninety (90) days after the acquisition of office equipment used in Borrower's business on such equipment hereafter acquired by Borrower for such use and not heretofore owned by Borrower; provided, however, that the amount of each such lien will not exceed eighty percent (80%) of the purchase price of the office equipment to which such lien applies).

(e) Sale of Assets. Sell the accounts, contract rights or other rights to

the payment of money pertaining to its business or sell, lease, license, abandon or otherwise dispose of, directly or indirectly, any of its assets except in the ordinary course of business.

(f) Consolidation, Merger, etc. Consolidate with or merge into, sell

(whether in one transaction or in a series of transactions) all or any substantial part its assets to any Person, reorganize, restructure or dissolve.

(g) Guarantees and Acquisitions. Guaranty the obligations of any Person,

make any equity contribution to, or acquire by purchase of stock or by purchase of assets, in exchange for cash or partnership interests or securities of any other Person, all or any substantial division or portion of the assets and business of any other Person.

(h) No Indebtedness. Create, incur, assume or suffer to exist, or

otherwise become or be liable in respect of any Indebtedness other than to Lender, except trade debt incurred in the ordinary course of business.

(i) Loans and Advances. Make loans or otherwise extend credit (other than

on account of sales of inventory) to or make any investment in any Person, including its officers and directors.

(j) Location of Books. Remove its books and records concerning the

Collateral, or the Collateral (except for that Inventory which is in transit), from the locations described herein or keep any of such books and records or the Collateral at any other office or location, unless Borrower gives Lender written notice thereof at least thirty (30) days prior thereto and the same is within the continental United States of America.

(k) Fictitious Name. Use any other corporate or any fictitious name without

at least thirty (30) days' prior written notice to Lender.

(l) Capital Expenditure. Make capital expenditures (including capitalized

lease obligations) not contained on a Budget approved by Lender.

7. Events of Default. The following events will constitute an "Event of

Default" hereunder:

(a) Payment of Obligations. Borrower will default in the due and punctual

payment of the Obligations;

(b) Performance of other Terms. Borrower will materially fail to perform or

observe any of the terms, provisions, covenants, conditions, agreements or
obligations contained in this Agreement;

(c) Inaccurate Representations. Any representation or warranty made in

writing by or on behalf of Borrower herein or otherwise in connection with the
transactions contemplated hereby or any report, certificate, financial or other
instrument furnished in connection with this Agreement will be inaccurate or
incomplete in any material respect whether due to inaccuracy on the date as of
which made or due to subsequent events or the passage of time;

(d) Default Under Other Agreements. A default will occur under any material

evidence of Indebtedness issued, assumed or guaranteed by Borrower or under any
material indenture, agreement or other instrument under which the same may be
issued or under any material contract, agreement or other obligation to which
Borrower is a party or its property is subject or there will occur any event
upon the occurrence of which any holder or holders of any material Indebtedness
outstanding thereunder may declare the same due and payable;

(e) Judgments. A judgment (whether or not final) for the payment of money,

in excess of \$50,000 will be rendered against Borrower, and Borrower will not
discharge the same or cause it to be discharged within thirty (30) calendar days
from the entry thereof, or will not appeal therefrom or from the order, decree
or process upon which or pursuant to which said judgment was granted, based or
entered, and secure a stay of execution pending such appeal; or

(f) Suspension of Business; Insolvency. Borrower will suspend or

discontinue its business or be adjudicated a debtor or insolvent, or generally
not pay its debts as they become due (within the meaning of 11 U.S.C. (S) 303(h)
as at any time amended or any successor statute thereto), or make an assignment
for the benefit of creditors; or Borrower will apply for or consent to the
appointment of a custodian, receiver, trustee, or similar officer for it or for
all or any substantial part of its property; or such custodian, receiver,
trustee or similar officer will be appointed without the application or consent
of Borrower and such appointment will continue undischarged for a period of
sixty (60) days; or Borrower will institute (by petition, application, answer,
consent or otherwise) any bankruptcy, insolvency, reorganization, moratorium,

arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it under the laws of any jurisdiction; or any such proceeding will be instituted (by petition, application or otherwise) against Borrower and will remain undismissed for a period of sixty (60) days; or any judgment, writ, warrant of attachment or execution or similar process will be issued or levied against a substantial part of the property of Borrower and such judgment, writ, or similar process will not be released, vacated or fully bonded within thirty (30) days after its issue or levy; or any order for relief will be entered against Borrower under Title 11 of the United States Code; or Borrower will take any action to effect or which indicates its acquiescence to any of the foregoing.

8. Remedies Upon Event of Default. Upon the occurrence of an Event of Default

under Paragraph 7(f) above automatically, and, upon the occurrence of one or more Events of Default under any of Paragraph 7(a) through 7(e) at the option and upon the declaration of Lender, provided that Borrower has not cured any curable Event of Default within ten (10) business days after notice from Lender:

(a) Lender's obligation to make any Loan hereunder will terminate and all Obligations owed to Lender will, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived, be forthwith due and payable, whereupon the same will become immediately due and payable, and Lender may immediately, and without expiration of any period of grace, enforce all Obligations of Borrower to it under this Agreement and exercise any and all other remedies granted to it at law, in equity or otherwise.

(b) Despite the provisions of Section 8(a), unless the Event of Default is the failure of Borrower to make the Final Principal Payment when due or is caused by a material breach by Callaway Editions of its obligations to Borrower, Lender shall not have the right to foreclose upon the Collateral until the Final Principal Payment is due.

(c) In addition to all other rights provided herein or otherwise, but subject to Section 8(b), Lender will, when permitted to foreclose upon the Collateral under the terms of Section 8(b), have all the rights and remedies of a secured party under the UCC, and further, Lender may, without notice, demand or legal process of any kind (except as may be required by law), all of which Borrower waives, at any time or times, take physical possession of the Collateral and maintain such possession on Borrower's premises, at no cost to Lender, or remove the Collateral, or any part thereof, to such other place(s) as Lender may desire or Borrower will, upon Lender's demand, at Borrower's own cost and expense, assemble the Collateral and make it available to Lender at a place reasonably convenient to Lender and Lender may sell and deliver any or all Collateral and any or all other security and collateral held by or for Lender at public or private sales, for cash, upon credit or otherwise, at such prices and upon such terms as Lender deems advisable, at Lender's sole discretion, and may, if Lender deems it reasonable, postpone or adjourn any sale of the Collateral from time to time by an announcement at the time and place of sale or by announcement at the time and place of such postponed or adjourned sale, without being required to give a new notice of sale. In addition to any disposition of the Collateral, Lender

may, at its option, store, process, repair or recondition the Collateral or otherwise prepare it for disposition in any manner and to the extent Lender deems appropriate. Borrower agrees that Lender has no obligation to preserve rights to the Collateral against prior parties or to marshal any Collateral for the benefit of any Person. Lender is hereby granted a license or other right to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, tradenames, trademarks and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale and selling any Collateral and Borrower's rights under all licenses and all franchise agreements will inure to Lender's benefit. Any requirement of reasonable notice will be met if such notice is mailed postage prepaid to Borrower at its address set forth herein at least five (5) days before the time of sale or other disposition. The proceeds of sale will be applied first to all costs and expenses of sale, including attorneys' fees, and second to the payment (in whatever order Lender elects) of all Obligations. Lender will return any excess to Borrower and Borrower will remain liable to Lender for any deficiency. BORROWER (PURSUANT TO AUTHORITY GRANTED BY ITS BOARD OF DIRECTORS) HEREBY WAIVES ALL RIGHTS TO NOTICE AND HEARING OF ANY KIND PRIOR TO THE EXERCISE BY LENDER OF ITS RIGHTS TO REPOSSESS THE COLLATERAL WITHOUT JUDICIAL PROCESS OR TO REPLEVY, ATTACH OR LEVY UPON SUCH COLLATERAL WITHOUT PRIOR NOTICE OR HEARING AND ALL RIGHTS OF SETOFF AND COUNTERCLAIM AGAINST LENDER. BORROWER ACKNOWLEDGES THAT IT HAS BEEN ADVISED BY COUNSEL OF ITS CHOICE WITH RESPECT TO THIS TRANSACTION AND THIS AGREEMENT.

9. Indemnification of Lender.

(a) Scope. Borrower will indemnify and hold harmless Lender and Lender's

shareholders, officers, directors, employees and agents (each, an "Indemnitee"), to the maximum extent permitted by law, from and against any and all losses, claims, damages, liabilities, expenses (including legal fees and expenses), judgments, fines, settlements, and other amounts ("Liabilities") arising from any and all claims, costs, demands, actions, suits or proceedings, civil, criminal, administrative or investigative ("Claims"), (i) in which the Indemnitee may be involved, or threatened to be involved, as a party or otherwise by reason of its status as a creditor of Borrower, or (ii) which relate to the property, business or affairs of Borrower whether or not the liability or expense accrued or related to, in whole or in part any time on, before or after the date of this Agreement, and whether or not Borrower acted intentionally, negligently or in good faith with respect to such Liability; provided, however, that in no event will the indemnity provided by this Paragraph apply to any Liabilities or Claims to the extent they are attributable to intentional or willful misconduct of the party seeking the benefit of such indemnity. In such regard, Borrower acknowledges that Lender is acting under this Agreement and with respect to the Loans as a third party creditor and not as a Member of Borrower and that Lender shall have no fiduciary obligations towards Borrower with respect to this Agreement or the Loans or any actions taken by Lender with respect thereto. To the fullest extent permitted by law, Borrower waives any claim which is contrary to the understandings in the prior sentence.

(b) Expenses. An Indemnitee's reasonable expenses (including legal fees

and costs) incurred in defending any proceeding will be paid by Borrower in advance of the final disposition of the proceeding upon receipt of the Indemnitee's agreement to repay such amount if it is ultimately determined by a court of competent jurisdiction that the Indemnitee is not entitled to be indemnified by Borrower as authorized hereunder.

(c) Remedies. The indemnification and advancement of expenses provided by

this Paragraph is in addition to any other rights to which the Indemnitee may be entitled under any agreement, as a matter of law or otherwise, whether as to action in the Indemnitee's capacity as Lender or as the shareholder, director, officer, employee or agent of Lender or in any other capacity, will continue as to an Indemnitee who has ceased to serve in such capacity and will inure to the benefit of the heirs, successors, assigns and administrators of the Indemnitee. The parties intend this Paragraph to be liberally construed.

(d) Interested Transaction. No Indemnitee will be denied indemnification

in whole or in part under this Paragraph because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was approved in accordance herewith or meets the standards provided hereunder.

10. Defined Terms. The following terms as used in this Agreement will have the following meanings:

(a) "Agreement" will mean this Agreement, as the same may be amended,

extended, supplemented or superseded from time to time.

(b) "Borrower's Products" will have the meaning given in Paragraph 4(h)

hereof.

(c) "Business Plan" will have the meaning given in Paragraph 1(b) hereof.

(d) "Code" will mean the Internal Revenue Code of 1986, as amended.

(e) "Collateral" will have the meaning given in Paragraph 2 hereof.

(f) "Commitment" will have the meaning given in Paragraph 1(a) hereof.

(g) "Controlled Group" will mean a "controlled group of corporations" as

defined in Section 1563(a) of the Code determined without regard to Section 1563(a)(4) and (e)(3)(c) of the Code, of which Borrower is a part.

(h) "Dollars" and "\$" will mean United States dollars or such coin or

currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts in the United States of America.

(i) "Equipment" will mean all of Borrower's now owned and hereafter

acquired equipment and fixtures, including, without limitation, furniture, machinery, vehicles and trade fixtures, together with any and all accessions, parts and appurtenances thereto, substitutions therefor and replacements thereof.

(j) "ERISA" will mean the Employee Retirement Income Security Act of 1974,

as the same may from time to time be supplemented or amended, and any regulations promulgated thereunder.

(k) "Event of Default" will mean any of the events specified in Paragraph

7 hereof.

(l) "GAAP" or "generally accepted accounting principles" will mean

generally accepted accounting principles in the United States of America including, where appropriate, generally accepted auditing standards, the pronouncements and interpretations of appropriate accountancy administrative bodies (including, without limitation, the Financial Accounting Standards Board and any predecessor and successor thereto), applied on a consistent basis, as such principles are in effect on the date hereof.

(m) "General Intangibles" will mean all of Borrower's now owned and

hereafter acquired choses in action, causes of action and all other intangible personal property of every kind and nature other than Receivables, including, without limitation, corporate or other business records, inventions, designs, patents, patent applications, trademarks, trademark applications, tradenames, trade secrets, goodwill, registrations, copyrights, licenses, franchises, customer lists, tax refunds, tax refund claims, rights and claims against carriers and shippers, insurance proceeds, and rights to indemnification.

(n) "Indebtedness" of any Person will mean all items of indebtedness and

liability, including, without limitation, capitalized lease obligations, which, in accordance with generally accepted accounting principles and practices, would be included in determining liabilities as shown on the liability side of a balance sheet of such Person as of the date as of which indebtedness is to be determined and will also include all indebtedness and liabilities of others assumed or guaranteed by such Person or in respect of which such Person is secondarily or contingently liable (other than by endorsement of instruments in the course of collection) whether by reason of any agreement to acquire such indebtedness or to supply or advance sums or otherwise.

(o) "Inventory" will mean all of Borrower's now owned and hereafter

acquired goods, merchandise and other personal property, wherever located, to be furnished under any contract of service or held for sale or lease, all raw materials, work in process, finished goods and materials and supplies of any kind, nature or description which are or might be used or consumed in Borrower's business or used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such goods, merchandise and other personal property, and all documents of title or other documents representing them.

(p) "Loans" will mean, collectively, the loans made pursuant to Paragraph

1(a) hereof; severally, a "Loan".

(q) "Multi-employer Plan" will mean any multi-employer plan as defined in

Section 3(37) of ERISA to which the Borrower is required to contribute.

(r) "Obligations" will mean and include all present and future loans,

advances, debts, covenants, duties, liabilities, obligations, letters of credit or acceptance transactions, trust receipt transactions, or any other financial accommodations, howsoever arising, owing by Borrower to Lender of every kind and description (whether or not evidenced by any note or other instrument and whether or not for the payment of money), direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising pursuant to the terms of this Agreement and all the other documents or instruments executed and delivered in connection herewith and therewith, including, without limitation, all principal of and interest on the Loans, all discounts and commissions on acceptances, all fees, charges, expenses, attorneys' fees and accountants' fees chargeable to Borrower or incurred by Lender in connection with its dealings with Borrower.

(s) "Person" will mean any natural person, corporation, partnership, joint

venture, unincorporated organization, sole proprietorship, trust, business trust, firm, association, government, governmental agency or any other entity and whether acting in an individual, fiduciary or other capacity.

(t) "Plan" will mean any employee pension benefit plan maintained or

contributed to by Borrower or any subsidiary and subject to Title IV of ERISA.

(u) "Receivables" will mean all of Borrower's now owned and hereafter

acquired accounts; proceeds of any letters of credit naming Borrower as beneficiary; contract rights; chattel paper; instruments; documents; insurance proceeds; and all obligations whatsoever owing to Borrower, including, without limitation, present and future rights to payment for goods, merchandise or Inventory sold or leased or for services rendered, those which are not evidenced by instruments or chattel paper, and whether or not they have been earned by performance; all returned and repossessed goods now or hereafter in the possession or under the control of Borrower or Lender; together with all instruments and documents of title representing any of the foregoing, rights in any goods, merchandise or Inventory which any of the same may represent, and all right, title, remedies, security and guaranties (including contracts of suretyship, and deposit, credit and other insurance) with respect to each of the foregoing, including, without limitation, any right of stoppage in transit and any other rights or remedies of an unpaid vendor, lienor, or secured party.

(v) "Reportable Event" will have the same meaning as that found in Section

4043 of ERISA.

(w) "Tangible Personal Property" will mean all assets or items now or

hereafter owned by Borrower or in which Borrower has or acquires any right of any nature, which asset or item does not constitute real property, Receivables, Inventory, Equipment or General Intangibles.

(x) "UCC" will mean the Uniform Commercial Code, as in effect from time to

time in the State of New York.

11. Other Definitional Provisions.

(a) All financial terms, except as their meanings may be modified by this Agreement, will have the meanings given them in accordance with GAAP.

(b) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement will refer to this Agreement as a whole and not to any particular provision of this Agreement, and Paragraph, subparagraph, schedule and Exhibit references are to this Agreement unless otherwise specified.

12. No Right Due To Lender's Status As Member. Borrower acknowledges that

Lender shall have no obligations or limitations under this Agreement arising from or relating to the fact that Lender is a Member of Borrower. Lender shall have no obligations under this Agreement due to such status and shall not be limited in any manner in enforcing its rights hereunder as a result of such status. Lender may enforce its rights hereunder as if an independent third party lender in all respects. To the fullest extent permitted by law, Borrower waives any claim or right which is contrary to the understandings in this Section.

13. Miscellaneous.

(a) Entire Agreement. When this Agreement becomes effective, it, including

all Exhibits, will embody the entire agreement and understanding between the parties hereto and supersedes all prior agreements and understandings.

(b) Event of Default; Effect of Waiver. An Event of Default which has been

waived in writing by Lender will not constitute an Event of Default for purposes of this Agreement; provided, however, that no failure to exercise, and no delay in exercising any right, power or remedy hereunder or under any document delivered pursuant hereto will impair any right, power or remedy which Lender may have, nor will any such delay be construed to be a waiver of any of such rights, powers or remedies, or an acquiescence in any breach of default under this Agreement or any document delivered pursuant hereto nor will any waiver of any breach or default of Borrower hereunder be deemed a waiver of any default or breach subsequently occurring. The rights and remedies herein specified are cumulative and not exclusive of any rights or remedies which Lender would otherwise have.

(c) Survival. All representations, warranties and agreements herein

contained on the part of Borrower will survive the making of the Loans hereunder and all such representations, warranties and agreements will be effective so long as any Obligations arising pursuant to the terms of this Agreement remain unpaid or for such longer period as may be expressly stated therein.

(d) Notices. All notices, requests, consents and demands hereunder will be

effective on the third business day following deposit in the mails, certified mail postage prepaid, or on the date personally delivered to an officer of the party to which sent or on the date transmitted by telex, in all cases addressed to the respective party at the address set forth below:

Borrower: Callaway Golf Media Ventures, LLC
70 Bedford Street
New York, New York 10014

Lender: Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008
Attn: Donald H. Dye, President & CEO

With a copy to:

Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008
Attn: Legal Department

Either party may change the address to which notices are to be sent by notice of such change to the other party given as provided herein.

(e) Termination. This Agreement will terminate when all Obligations of

Borrower will have been discharged in full.

(f) Separability of Provisions. In any case any one or more of the

provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein will not in any way be affected or impaired there by.

(g) Successors and Assigns. This Agreement will be binding upon and inure

to the benefit of Borrower, Lender and their respective successors and assigns; provided, however, that Borrower may not transfer its rights to borrow under this Agreement without the prior written consent of Lender.

(h) Counterparts. This Agreement may be executed in any number of

counterparts all of which taken together will constitute one agreement and any party hereto may execute this Agreement by signing any such counterpart.

(i) Choice of Law and Choice of Forum. This Agreement will be governed by

and construed in accordance with the laws of the State of California as applied to contracts entered into and to be performed in said state between residents thereof. BORROWER HEREBY AGREES TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED IN THE STATE OF CALIFORNIA AND WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS UPON IT AND CONSENTS THAT ALL SUCH SERVICE OF PROCESS BE MADE BY REGISTERED MAIL DIRECTED TO BORROWER AT ITS ADDRESS SET FORTH HEREIN AND SERVICE SO MADE WILL BE DEEMED TO BE COMPLETED FIVE (5) BUSINESS DAYS AFTER THE SAME WILL HAVE BEEN DEPOSITED IN THE U.S. MAILS, POSTAGE PREPAID. BORROWER HEREBY APPOINTS EACH OF LENDER'S VICE PRESIDENTS OR SUCH OTHER EMPLOYEES OF LENDER AS LENDER MAY FROM TIME TO TIME HEREAFTER DESIGNATE, AS BORROWER'S AGENT FOR THE PURPOSE OF ACCEPTING SERVICE OF PROCESS WITHIN NEW YORK AND LENDER AGREES TO PROMPTLY FORWARD, BY CERTIFIED MAIL, ANY PROCESS SO SERVED UPON SAID AGENT TO BORROWER AT ITS ADDRESS SET FORTH HEREIN. BORROWER WAIVES TRIAL BY JURY, ANY OBJECTION BASED ON FORUM NONCONVENIENS, AND ANY OBJECTION TO VENUE OF ANY ACTION INSTITUTED HEREUNDER AND CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY THE COURT. NOTHING IN THIS PARAGRAPH WILL AFFECT THE RIGHT OF LENDER TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR AFFECT THE RIGHT OF LENDER TO BRING ANY ACTION OR PROCEEDING AGAINST BORROWER OR ITS PROPERTY IN THE COURTS OF ANY OTHER JURISDICTION.

(j) Amendment and Waiver. Neither this Agreement nor any provisions hereof

may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

(k) Effect of Termination. No termination or cancellation (regardless of

cause or procedure) of this Agreement or of any guaranty of the Obligations will in any way affect or impair the powers, obligations, duties, rights and liabilities of the parties hereto in any way with respect to (i) any transaction or event occurring prior to such termination or cancellation, (ii) the Collateral (including Collateral obtained by Borrower after termination) and/or (iii) any of Borrower's undertakings, agreements, covenants, warranties and representations contained in this Agreement and all such undertakings, agreements, covenants, warranties and representations will survive such termination or cancellation.

(l) No Requirement of Note. If any Loan is not evidenced by a promissory

note, such loans and advances will be evidenced solely by entries upon Lender's books and records.

(m) One Loan. All of the Obligations will constitute one loan secured by

Lender's security interest in the Collateral and by all other security interests, liens, claims, and encumbrances now and from time to time hereafter granted by Borrower to Lender. Lender may, in its sole discretion, (i) exchange, enforce, waive or release any security or portion of the Collateral, and any mortgages or trust deeds in favor of Lender relating to any real property owned by Borrower, (ii) apply such security or Collateral and direct the order or manner of sale thereof as Lender may, from time to time, determine, and (iii) settle, compromise, collect or otherwise liquidate any such security or Collateral for the Obligations in any manner following the occurrence of an Event of Default without affecting or impairing Lender's right to take any other further action with respect to any security or Collateral for the Obligations or any part thereof.

(n) Reapplication. Lender will have the continuing and exclusive right to

apply or reverse and re-apply any and all payments to any portion of the Obligations. To the extent that Borrower makes a payment or payments to Lender or Lender receives any payment or proceeds of the Collateral for Borrower's benefit, which payment(s) or proceeds or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, debtor in possession, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then, to the extent of such payment or proceeds received, the Obligations or part thereof intended to be satisfied will be revived and continue in full force and effect, as if such payment or proceeds had not been received by Lender.

(o) Attorneys' Fees and Costs. Borrower will reimburse Lender for all

costs and expenses incurred by Lender or for which Lender becomes obligated, including but not limited to, attorneys' and paralegals' fees, lien and title search and insurance policy fees, costs and expenses and all taxes and filing or recording fees payable in connection with (i) any inspection and/or verification of the Collateral, (ii) any proceeding relating to this Agreement or the Collateral (iii) actions taken with respect to the Collateral and Lender's security interest therein, and (iv) enforcement of any rights and remedies of Lender with respect to the Obligations or Collateral. All of the foregoing fees, costs and expenses may be charged to Borrower's loan account and will be part of the Obligations, payable upon demand, and secured by the Collateral.

(p) Injunctive Relief. Borrower recognizes that, if Borrower fails to

perform, observe or discharge any of its obligations or liabilities under this Agreement, any remedy of law may prove to be inadequate relief to Lender; therefore, Borrower agrees that Lender, if Lender so requests, will be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

(q) Set-Off. Borrower agrees that Lender may exercise its rights of setoff

upon the occurrence of an Event of Default with respect to the Obligations in the same manner as if the Obligations were unsecured.

(r) Release of Financial or Other Information Provided by Borrower.

Borrower agrees that Lender may furnish any financial or other information concerning Borrower heretofore or hereafter provided by Borrower to Lender, pursuant to this Agreement or otherwise, to any prospective or actual purchaser of any participation or other interest in any of the Loans made by Lender to Borrower (whether under this Agreement or otherwise), or to any prospective purchaser of any securities issued or to be issued by Lender.

(s) Exhibits. All Exhibits hereto are hereby incorporated herein by this

reference.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

Borrower:

CALLAWAY GOLF MEDIA VENTURES,
LLC, a California limited liability company

Lender:

CALLAWAY GOLF COMPANY,
a California corporation

By: _____
Nicholas Callaway, Manager

By: _____
Donald H. Dye, President & CEO

Exhibit "A"
Loan Funding

The Loan will be funded as follows:

\$1,500,000	upon formation of the Venture
\$ 500,000	March 1, 1998
\$1,000,000	June 1, 1998
\$1,000,000	September 1, 1998
\$1,500,000	December 1, 1998
\$2,000,000	March 1, 1999

During this period and thereafter, Borrower and Lender will meet every six months to determine cash flow needs. Funding after March 1, 1999 of amounts beyond those stated above will be determined every six months based upon the mutually determined cash flow needs of Borrower (subject to Lender's rights hereunder); however, it is anticipated that additional amounts will be advanced as follows:

\$1,000,000	June 1, 1999
\$ 500,000	September 1, 1999
\$4,000,000	December 1, 1999
up to \$7,000,000	March 1, 2000

It is the intent to provide Borrower with adequate cash flow, including reserves. The foregoing schedule may be adjusted if the milestones described below are not being met or are being exceeded. In addition, after the foregoing period, schedules will be established so as to continue to provide adequate cash flow and reserves to Borrower.

All funding assumes that progress is being made to meet the following milestones by the following dates:

October 31, 1998	Review of Final Layouts of Guides 1, 2 & 3
April 30, 1999	Review of Final Layouts of Guides 4, 5 & 6
October 31, 1999	Review of Final Layouts of Guides 7, 8 & 9
April 30, 2000	Review of Final Layouts of Guides 10, 11 & 12
October 30, 2000	Review of Final Layouts of Guides 13, 14 & 15
April 30, 2001	Review of Final Layouts of Guides 16, 17 & 18

Approval of final layouts of the Guides is at the discretion of Lender. Funding shall be adjusted if such milestones are not met.

In addition, it is understood that funding which is intended to fund the publication of additional Guides shall be halted if Lender, in its capacity as a Member of Borrower, determines not to

publish such Guides. To evaluate the success of the Guides, Borrower and Lender shall review the publishing successes and failures of the Guides on the following dates:

October 31, 1999	Review of Success of Guides 1, 2 & 3
April 30, 2000	Review of Success of Guides 4, 5 & 6
October 31, 2000	Review of Success of Guides 7, 8 & 9
April 30, 2001	Review of Success of Guides 10, 11 & 12
October 30, 2002	Review of Success of Guides 13, 14 & 15
April 30, 2002	Review of Success of Guides 16, 17 & 18

Evaluation of the success of the Guides is at the discretion of Lender as a Member of Borrower and Borrower shall have no rights or remedies whatsoever if Lender in its discretion determines not to publish any of the Guides.

CERTIFICATE OF MEMBERS

We hereby certify that the foregoing Operating Agreement, consisting of 28 pages, plus Exhibits A, B and C, constitutes the Operating Agreement of Callaway Golf Media Ventures, LLC, a California limited liability company, adopted by the Members of the Company as of January 26, 1998.

CALLAWAY GOLF COMPANY, a
California corporation

By: _____ Date: _____
Donald H. Dye
President and Chief Executive Officer

"Editions":

CALLAWAY EDITIONS, INC., a
Delaware corporation

By: _____ Date: _____
Nicholas Callaway
President

Contact: Krista Mallory
(760) 931-1771

MARKET CONDITIONS WILL CONTINUE TO ADVERSELY IMPACT
CALLAWAY GOLF COMPANY'S SECOND QUARTER 1998
SALES AND EARNINGS

CARLSBAD, California/ May 12, 1998/ Callaway Golf Company (NYSE:ELY) today reported that it expects its sales and earnings for the quarter ending June 30, 1998 will be affected by a series of negative factors in the marketplace. The Company expects to report second quarter 1998 results during the week of July 20, 1998, that will be below current analyst estimates.

The Company previously reported on February 27, 1998, that it expected first quarter 1998 sales and earnings to be lower than expected primarily due to abnormally bad weather conditions ("El Nino") and international economic problems, primarily in Asia ("Asian Flu"). On April 22, 1998, the Company announced first quarter results in line with its February statement. Those results confirmed the negative effects of "El Nino" weather patterns on sales in the United States, and the negative effects of the "Asian Flu" on sales internationally. In addition, the Company previously reported a softening in sales of metal woods primarily due to price reductions by some competitors, mostly on close out products, and other reasons.

The Company believes that the "El Nino" weather patterns have now largely dissipated, and should not be a continuing concern. However, the "Asian Flu" appears to have worsened, and may be having a negative impact on business in Japan, which accounted for about 10% of the Company's revenues in 1997.

Moreover, metal wood sales continue to be soft in the second quarter. The Company believes this is largely the result of extensive and continuing price reductions by competitors and competition from two new competitors: Adams Golf and Olimar. There is also some indication that demand for premium priced titanium metal woods in general has softened, affecting the entire golf club industry.

Sales of the Company's newly introduced Big Bertha(R) X-12(TM) Irons continue to be strong in the U.S. and internationally. However, sales of the Company's other irons -- the Great Big Bertha(R) Tungsten-Titanium(TM) Irons -- have softened. The Company makes smaller profit margins off sales of its irons as compared to the margins earned on sales of metal woods.

Sales of Odyssey(R) putters by the Company's wholly-owned subsidiary, Odyssey Golf, Inc., are also expected to be below targets for the second quarter. Recent retail sales reports indicate that the putter market in the United States is down generally. Moreover, the bulk of the orders received for new products introduced at the end of January at the Orlando PGA Show will not be shipped until June.

"While this news is disappointing, it does not vary our belief that the fundamentals of the Company remain strong. We believe that we are still #1 in sales, measured in dollars and in units, across the board in metal woods, irons and putters," reported Donald H. Dye, President and Chief Executive Officer of Callaway Golf. "Gains in market share by some of our competitors in the first quarter, largely due in our opinion to price discounts on their close outs, appear to be stabilizing. Further, it may be that the entire industry is facing a softening in metal wood sales. We are continuing to monitor the situation. However, we have alternatives available to us, including pricing and new product initiatives, which we believe will help generate new interest at the retail level."

The Company also stated that reports have surfaced within the golf community and in golf publications that the USGA, the governing body of golf in the United States, is evaluating steps that might prohibit or restrict the use of modern, thin-faced metal woods under the Rules of Golf. These reports predict that the USGA will promulgate by the year 2000 a rule establishing the maximum speed at which a golf ball can come off a clubhead, similar to the USGA's existing "overall distance" standard applicable to golf balls. The Company is aware of work ongoing at the USGA with regard to the performance of thin-faced metal woods, with particular focus upon the whether the faces of such metal woods have the effect at impact of a spring, but it has been advised by the USGA that no decision has been made regarding new rules or rule interpretations applicable to golf clubs. Although all of the Company's current products have been approved by the USGA, it is possible that such reports and rumors about possible action by the USGA against thin-faced metal woods are having or may have a negative effect on the Company.

"At this time we cannot predict the extent to which we will miss the current expectations of analysts for the second quarter," Mr. Dye continued. "There are still many uncertainties. However, we currently believe the situation could cause us to report diluted earnings per share for the second quarter of 1998

that are as much as \$.30 per share less than analyst expectations of about \$.60 per share."

Callaway Golf makes and sells Big Bertha(R) metal woods and irons, including Big Bertha(R) War Bird(R) Stainless Steel Metal Woods, Great Big Bertha(R) Titanium Metal Woods, Biggest Big Bertha(TM) Titanium Drivers, Big Bertha(R) X-12(TM) Irons and Great Big Bertha(R) Tungsten.Titanium(TM) Irons. Callaway Golf's wholly-owned subsidiary, Odyssey Golf, Inc., makes and sells Odyssey(R) putters and wedges with Stronomic(R) and Lyconite(TM) inserts.

Statements used in this press release that relate to future plans, events, financial results or performance are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those anticipated as a result of certain risks and uncertainties, including but not limited to market acceptance of current and future products, competitive pressures, and risks associated with new business ventures, as well as other risks and uncertainties detailed from time to time in the Company's periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

For more information about Callaway Golf Company, please visit the Company's website on the Internet at www.callawaygolf.com

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CALLAWAY GOLF COMPANY CONSOLIDATED CONDENSED BALANCE SHEET (UNAUDITED) AND CONSOLIDATED CONDENSED STATEMENT OF INCOME (UNAUDITED) AT MARCH 31, 1998 AND FOR THE THREE MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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3-MOS	
DEC-31-1998	
JAN-01-1998	
MAR-31-1998	
	14,430
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154,617	
7,265	
147,668	
339,970	206,808
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	632,866
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	747
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632,866	
	176,908
176,908	
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93,203	
0	
352	
156	
18,407	
	7,247
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	0
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	0.16