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, 2012

OR

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

For the transition period to

Commission file number 001-10962

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

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

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of March 31, 2012 was 65,029,855.

Important Notice to Investors: Statements made in this report that relate to future plans, events, liquidity, financial results or performance including statements relating to future cash flows and liquidity, estimated unrecognized stock compensation expense, projected capital expenditures, projected amortization expense related to intangible assets, future contractual obligations, the realization of deferred tax assets, including loss and credit carryforwards, the reversal of the deferred tax valuation allowance in future periods, future income tax expense, the estimated savings and reinvestments related to the Company's restructuring plan, the profitability of future products as well as implementing measures that will drive growth and profitability in 2012 are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are based upon current information and expectations. Actual results may differ materially from those anticipated if the information on which those estimates was based ultimately proves to be incorrect or as a result of certain risks and uncertainties, including changes in economic conditions, credit markets, or foreign currency exchange rates, the level of promotional activity in the marketplace, consumer acceptance and demand for the Company's products, future consumer discretionary purchasing activity (which can be significantly adversely affected by unfavorable economic or market conditions), delays, difficulties, changed strategies, or unanticipated factors including the general risks and uncertainties applicable to the Company and its business. For details concerning these and other risks and uncertainties, see Part I, Item IA, "Risk Factors" of our most recent Form 10-K as well as the Company's other reports subsequently filed with the Securities and Exchange Commission from time to time. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by law, the Company undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Investors should also be aware that while the Company from time to time does communicate with securities analysts, it is against the Company's policy to disclose to them any material non-public information or other confidential commercial information. Furthermore, the Company has a policy against distributing or confirming financial forecasts or projections issued by analysts and any reports issued by such analysts are not the responsibility of the Company. Investors should not assume that the Company agrees with any report issued by any analyst or with any statements, projections, forecasts or opinions contained in any such report.

Callaway Golf Company Trademarks: *The following marks and phrases, among others, are trademarks of Callaway Golf Company: Anypoint—Backstryke—Big Bertha—Black Series Tour Designs—Callaway—Callaway Golf—Callaway uPro GO—C Grind—Chev—Chev 18—Chevron Device—D.A.R.T.—Demonstrably Superior and Pleasingly Different—Diablo Edge-Diablo Forged—Diablo Octane—Divine—Eagle-ERC—FTiZ—FT Performance—FT Tour—Fusion—Gems—Great Big Bertha—Heavenwood—HX—HX Diablo—HX Diablo Tour—Hex Aerodynamics—Hex Black Tour— Hex Chrome—IMIX—Legacy—Legacy Aero—Legend—Marksman—Number One Putter in Golf—Odyssey—OptiFit—ORG.14—Razr Fit—Razr Hawk—Razr X—Razr XF—Razr X Forged—Razr X Muscleback—Razr X Tour—Rossie—S2H2—Sabertooth—Solaire—Steelhead—Strata—Stronomic—Teron—Tech Series—Ti-Hot—Tour Authentic—Tour i—Tour i(S)—Tour iX—Tour i(Z)—Trade In! Trade Up!—Tru Bore—uPro—uPro MX—VFT—War Bird—White Hot—White Hot Tour—White Hot XG—White Ice—World's Friendliest—X-Act—XJ Series—X-SPANN—Xtra Traction Technology—XTT—Xtra Width Technology—XWT-2-Ball.*

CALLAWAY GOLF COMPANY

INDEX

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements (Unaudited)	4
	Consolidated Condensed Balance Sheets as of March 31, 2012 and December 31, 2011	4
	Consolidated Condensed Statements of Operations for the three months ended March 31, 2012 and 2011	5
	Consolidated Condensed Statements of Comprehensive Income for the three months ended March 31, 2012 and 2011	6
	Consolidated Condensed Statements of Cash Flows for the three months ended March 31, 2012 and 2011	7
	Consolidated Condensed Statement of Shareholders' Equity for the three months ended March 31, 2012	8
	Notes to Consolidated Condensed Financial Statements	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	37
Item 4.	Controls and Procedures	38

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	39
Item 1A.	Risk Factors	39
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	39
Item 3.	Defaults Upon Senior Securities	39
Item 4.	Mine Safety Disclosures	39
Item 5.	Other Information	40
Item 6.	Exhibits	40

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CALLAWAY GOLF COMPANY

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

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 51,669	$ 43,023
Accounts receivable, net	255,259	115,673
Inventories	236,240	233,070
Deferred taxes, net	3,950	4,029
Income taxes receivable	1,899	3,654
Other current assets	23,373	19,880
Total current assets	572,390	419,329
Property, plant and equipment, net	117,098	117,147
Intangible assets, net	100,885	121,935
Goodwill	29,618	29,203
Deferred taxes, net	1,414	1,386
Other assets	37,829	38,112
Total assets	$859,234	$ 727,112
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$150,472	$ 129,193
Accrued employee compensation and benefits	23,508	23,785
Accrued warranty expense	8,262	8,140
Deferred taxes	4,108	4,108
Income tax liability	520	2,558
Asset-backed credit facility	85,900	—
Total current liabilities	272,770	167,784
Long-term liabilities:		
Income taxes payable	8,292	8,115
Deferred taxes, net	29,149	31,429
Long-term other	7,035	6,970
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred stock, $.01 par value, 3,000,000 shares authorized, 1,400,000 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	14	14
Common stock, $.01 par value, 240,000,000 shares authorized, 66,352,565 and 66,340,695 shares issued at March 31, 2012 and December 31, 2011, respectively	664	663
Additional paid-in capital	263,179	265,067
Retained earnings	276,426	247,941
Accumulated other comprehensive income	14,364	14,071
Less: Common Stock held in treasury, at cost, 1,322,710 shares and 1,453,819 shares at March 31, 2012 and December 31, 2011, respectively	(15,688)	(17,800)
Total Callaway Golf Company shareholders' equity	538,959	509,956
Non-controlling interest in consolidated entity (Note 10)	3,029	2,858
Total shareholders' equity	541,988	512,814
Total liabilities and shareholders' equity	$859,234	$ 727,112

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

Table of Contents

CALLAWAY GOLF COMPANY

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

	Three Months Ended March 31,	
	2012	2011
Net sales	$285,098	$285,599
Cost of sales	160,727	161,918
Gross profit	124,371	123,681
Operating expenses:		
Selling expense	76,838	75,219
General and administrative expense	12,234	16,287
Research and development expense	7,473	9,197
Total operating expenses	96,545	100,703
Income from operations	27,826	22,978
Other income (expense), net	3,684	(1,380)
Income before income taxes	31,510	21,598
Income tax (benefit) provision	(292)	8,780
Net income	31,802	12,818
Dividends on convertible preferred stock	2,625	2,625
Net income allocable to common shareholders	$ 29,177	$ 10,193
Earnings per common share:		
Basic	$ 0.45	$ 0.16
Diluted	$ 0.37	$ 0.15
Weighted-average common shares outstanding:		
Basic	64,983	64,303
Diluted	84,930	84,719

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

CALLAWAY GOLF COMPANY

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2012	2011
Net income	$31,802	$12,818
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	293	2,349
Other comprehensive income, net of tax	293	2,349
Comprehensive income	$32,095	$15,167

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

CALLAWAY GOLF COMPANY

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

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	$ 31,802	$ 12,818
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	8,745	9,880
Deferred taxes	(2,321)	(125)
Non-cash share-based compensation	788	2,305
Gain on disposal of long-lived assets	(559)	(6,242)
Gain on sale of intangible assets	(6,616)	—
Changes in assets and liabilities:		
Accounts receivable, net	(140,786)	(122,579)
Inventories	(4,029)	11,533
Other assets	(2,010)	2,001
Accounts payable and accrued expenses	23,332	27,712
Accrued employee compensation and benefits	(977)	8,437
Accrued warranty expense	122	219
Income taxes receivable/payable	(13)	9,661
Other liabilities	116	5,006
Net cash used in operating activities	(92,406)	(39,374)
Cash flows from investing activities:		
Capital expenditures	(8,687)	(6,918)
Proceeds from sales of property, plant and equipment	50	18,172
Proceeds from sales of intangible assets	26,861	—
Net cash provided by investing activities	18,224	11,254
Cash flows from financing activities:		
Issuance of common stock	1	1,160
Dividends paid	(3,279)	(3,270)
Proceeds from credit facilities, net	85,900	3,000
Other financing activities	169	169
Net cash provided by financing activities	82,791	1,059
Effect of exchange rate changes on cash and cash equivalents	37	560
Net increase (decrease) in cash and cash equivalents	8,646	(26,501)
Cash and cash equivalents at beginning of year	43,023	55,043
Cash and cash equivalents at end of period	$ 51,669	$ 28,542
Supplemental disclosures:		
Cash received (paid) for income taxes, net	$ (1,982)	$ 2,040
Cash received (paid) for interest and fees	$ 673	$ (56)
Dividends payable	$ 438	$ 438
Acquisition of treasury stock for minimum statutory withholding taxes	$ 602	$ 665
Purchases of capital expenditures unpaid at period end	$ 891	$ 1,333

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

Table of Contents

CALLAWAY GOLF COMPANY

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

	Callaway Golf Shareholders											
	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock		Non-controlling Interest	Total
	Shares	Amount	Shares	Amount				Shares	Amount		
Balance, December 31, 2011	1,400	$ 14	66,341	$ 663	$265,067	$247,941	$ 14,071	(1,454)	$(17,800)	$ 2,858	$512,814
Acquisition of treasury stock for minimum statutory withholding taxes	—	—	—	—	—	—	—	(91)	(602)	—	(602)
Issuance of treasury stock	—	—	—	—	(2,714)	—	—	222	2,714	—	—
Compensatory stock and stock options	—	—	—	—	788	—	—	—	—	—	788
Stock dividends	—	—	12	1	38	(38)	—	—	—	—	1
Cash dividends	—	—	—	—	—	(3,279)	—	—	—	—	(3,279)
Equity adjustment from foreign currency translation	—	—	—	—	—	—	293	—	—	—	293
Net income	—	—	—	—	—	31,802	—	—	—	171	31,973
Balance, March 31, 2012	1,400	$ 14	66,353	$ 664	$263,179	$276,426	$ 14,364	(1,323)	$(15,688)	$ 3,029	$541,988

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

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared by Callaway Golf Company (the "Company" or "Callaway Golf") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC. These consolidated condensed financial statements, in the opinion of management, include all adjustments necessary for the fair presentation of the financial position, results of operations and cash flows for the periods and dates presented. Interim operating results are not necessarily indicative of operating results for the full year.

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

Recent Accounting Standards

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities." This ASU requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU No. 2011-11 will be applied retrospectively and is effective for annual and interim reporting periods beginning on or after January 1, 2013. The adoption of this ASU is not expected to have a material impact on the Company's disclosures to the consolidated financial statements.

2. Restructuring Initiatives

Global Operations Strategy

In 2010, the Company began the implementation of its Global Operations Strategy Initiatives ("GOS Initiatives"), which targeted the restructuring and relocation of the Company's manufacturing and distribution operations. This restructuring, which is designed to add speed and flexibility to customer service demands, optimize efficiencies, and facilitate long-term gross margin improvements, includes the reorganization of the Company's manufacturing and distribution centers located in Carlsbad, California, Toronto, Canada, and Chicopee, Massachusetts, the creation of third-party logistics sites in Dallas, Texas and Toronto, Canada, as well as the establishment of a new production facility in Monterrey, Mexico. This restructuring was completed in 2011 and only nominal charges were incurred in 2012. The Company intends to maintain limited manufacturing and distribution facilities in Carlsbad, California and Chicopee, Massachusetts.

For the three months ended March 31, 2011, the Company recorded pre-tax charges of $6,529,000 in connection with this restructuring, of which $6,302,000 and $227,000 were recognized within cost of sales and general and administrative expenses, respectively, and $4,540,000 and $1,762,000 were absorbed by the Company's golf clubs and golf balls segments, respectively. Charges related to corporate general and administrative expenses were excluded from the Company's operating segments. In the aggregate through December 31, 2011, the Company recognized total charges of $39,496,000 in connection with the GOS Initiatives. Amounts payable at March 31, 2012 and December 31, 2011 are included in accrued employee compensation and benefits, and also in accounts payable and accrued expenses at December 31, 2011 in the accompanying consolidated condensed balance sheet.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

The charges recognized under this restructuring included non-cash charges for the acceleration of depreciation on certain golf club and golf ball manufacturing equipment and cash charges related to severance benefits and transition costs, which consist primarily of consulting expenses, costs associated with redundancies during the start-up and training phase of the new production facility in Monterrey, Mexico, start-up costs associated with the establishment of third-party logistics sites, travel expenses, and costs associated with the transfer of inventory and equipment.

Reorganization and Reinvestment Initiatives

In June 2011, the Company announced that it was implementing certain restructuring initiatives (the "Reorganization and Reinvestment Initiatives") that involve (i) streamlining the Company's organization to reduce costs, simplify internal processes, and increase focus on the Company's consumers and retail partners, (ii) reorganizing the Company's organizational structure to place greater emphasis on global brand management and improve the effectiveness of the Company's key initiatives, and (iii) reinvesting in brand and demand creation initiatives to drive sales growth. The Company's restructuring plan is expected to result in annualized pre-tax savings of approximately $50,000,000 with up to half of the savings to be reinvested into the Callaway and Odyssey brands and more effective demand creation initiatives. The majority of these savings and reinvestments are expected to be realized in 2012.

During the quarter ended March 31, 2012, the Company recognized $442,000 of charges in connection with these initiatives of which $150,000 and $292,000 were recognized in cost of goods sold and operating expenses, respectively. Total charges absorbed by the Company's golf clubs and golf balls operating segments were $363,000 and $79,000, respectively. The Company expects future estimated charges of $558,000, to be settled in cash, during the balance of 2012.

The table below depicts the activity and liability balances recorded as part of the GOS Initiatives and the Reorganization and Reinvestment Initiatives as well as the current estimated future charges relating to these initiatives (in thousands). Amounts payable as of March 31, 2012 and December 31, 2011 are included in accrued employee compensation and benefits on the accompanying consolidated condensed balance sheet.

	GOS Initiatives		Reorganization and Reinvestment Initiatives	
	Workforce Reductions	Transition Costs	Workforce Reductions	Total
Restructuring payable balance, December 31, 2011	$ 1,219	$ 55	$ 5,357	$ 6,631
Charges to cost and expense	—	21	442	463
Cash payments	(559)	(76)	(3,357)	(3,992)
Restructuring payable balance, March 31, 2012	$ 660	$ —	$ 2,442	$ 3,102
Total future estimated charges as of March 31, 2012	$ —	$ —	$ 558	$ 558

3. Income Taxes

The Company calculates its interim income tax provision in accordance with Accounting Standards Codification ("ASC") 270, "Interim Reporting," and ASC 740, "Accounting for Income Taxes" (together, "ASC 740"). In general, at the end of each interim period, the Company estimates the annual effective tax rate and applies that rate to

its ordinary quarterly earnings. The tax expense or benefit related to significant, unusual, or extraordinary items is recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws, rates, or tax status is recognized in the interim period in which the change occurs.

The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment, including the expected operating income/loss for the year, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent and temporary differences as a result of differences between amounts measured and recognized in accordance with tax laws and financial accounting standards, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained, or as the tax environment changes. For the three months ended March 31, 2012, the discrete method was used to calculate the Company's U.S. interim tax expense as the annual effective rate was not considered a reliable estimate of year-to-date income tax expense. Under the discrete method, the Company determines its U.S. tax expense based upon actual results as if the interim period were an annual period. The Company's full U.S. valuation allowance position, the tax effects related to the changes in indefinite life intangibles and the seasonality of the Company's business create results with significant variations in the customary relationship between income tax expense and pre-tax income for the interim periods. As a result, the use of the discrete method is more appropriate than the annual year effective tax rate method.

The Company is required to file federal and state tax returns in the United States and various other tax returns in foreign jurisdictions. The preparation of these tax returns requires the Company to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could impact the amount of tax paid by the Company. The Company, in consultation with its tax advisors, bases its tax returns on interpretations that are believed to be reasonable under the circumstances. The tax returns, however, are subject to routine reviews by the various federal, state, and international taxing authorities in the jurisdictions in which the Company files its returns. As part of these reviews, a taxing authority may disagree with respect to the tax positions taken by the Company ("uncertain tax positions") and, therefore, require the Company to pay additional taxes. In accordance with ASC 740, the Company accrues for the estimated additional amount of taxes for uncertain tax positions if it is more likely than not (50% likelihood) that the Company would be required to pay additional taxes. The accrual for uncertain tax positions can result in a difference between the estimated benefit recorded in the Company's consolidated condensed financial statements and the benefit taken or expected to be taken in the Company's income tax returns. This difference is generally referred to as an "unrecognized tax benefit." As of March 31, 2012, the liability for income taxes associated with uncertain tax positions was $9,936,000 and could be reduced by $4,373,000 of offsetting tax benefits associated with the correlative effects of potential transfer pricing adjustments as well as $1,088,000 of tax benefits associated with state income taxes. The net amount of $4,475,000, if recognized, would favorably affect the Company's consolidated condensed financial statements and effective income tax rate. The Company does not expect that unrecognized tax benefit liabilities will significantly increase or decrease during the next 12 months.

Deferred tax assets and liabilities result from temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are anticipated to be in effect at the time the differences are expected to reverse. The realization of the deferred tax assets, including loss and credit carryforwards, is subject to the Company generating sufficient taxable income during the periods in which the temporary differences become realizable. The Company establishes a valuation allowance against its deferred tax assets when required by applicable accounting rules, increasing income tax expense in the period that such allowance is established. During the second quarter of 2011, the Company evaluated whether the realization of its U.S. deferred tax assets would be deemed likely under applicable accounting rules, and

considered, among other things, the Company's taxable losses in the United States from 2009 to 2011. When evaluated in light of the applicable standards, this evidence suggested that the Company should establish a valuation allowance. As a result, during 2011, the Company recorded a valuation allowance against its U.S. deferred tax assets. At each quarter end that a valuation allowance is maintained, as the U.S. deferred tax assets are adjusted upwards or downwards, the associated valuation allowance and income tax expense will be adjusted. If sufficient positive evidence arises in the future, such as a sustained return to profitability, any existing valuation allowance could be reversed as appropriate, decreasing income tax expense in the period that such conclusion is reached. The Company has concluded that with respect to non-U.S. entities, there is sufficient positive evidence to conclude that realization of its deferred tax assets is deemed to be likely under applicable accounting rules, and no allowances have been established.

The non-cash charge to establish a valuation allowance does not have any impact on the Company's consolidated operations or cash flow, nor does such an allowance preclude the Company from using loss carryforwards or other deferred tax assets in the future, except as described below. Until the Company re-establishes a pattern of continuing profitability, in accordance with the applicable accounting guidance, U.S. income tax expense or benefit related to the recognition of deferred tax assets in the consolidated condensed statement of operations for future periods will be offset by decreases or increases in the valuation allowance with no net effect on the consolidated condensed statement of operations.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. For the three months ended March 31, 2012 and 2011, the Company recognized approximately $62,000 and $98,000, respectively, of interest expense and penalties in the provision for income taxes. As of March 31, 2012 and December 31, 2011, the Company had accrued $952,000 and $890,000, respectively, before income tax benefit, for the payment of interest and penalties.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company is generally no longer subject to income tax examinations by tax authorities in the following major jurisdictions:

Tax Jurisdiction	Years No Longer Subject to Audit
U.S. federal	2007 and prior
California (United States)	2006 and prior
Canada	2006 and prior
Japan	2007 and prior
South Korea	2008 and prior
United Kingdom	2007 and prior

Although the Company has set up a valuation allowance against the majority of its U.S. federal and state deferred tax assets, which include tax credits, net operating loss carryforwards ("NOLs") and other losses, such allowance does not preclude the Company from using the deferred tax assets in the future. However, the Company's ability to utilize the tax credits and losses to offset future taxable income may be limited significantly if the Company were to experience a cumulative change in ownership of the Company's stock by "5-percent shareholders" (as defined in Section 382 of the Internal Revenue Code of 1986, as amended) that exceeds 50 percentage points over a rolling three-year period. The determination of whether a Section 382 ownership change has occurred is complex and requires significant judgment. The extent to which the Company's ability to utilize the losses is limited as a result of such an ownership change depends on many variables, including the value of the Company's stock at the time of the ownership change. Although the Company's ownership has changed significantly during the three-year period ended March 31, 2012 (due in significant part to the Company's June 2009 preferred stock offering), the Company does not believe there has been a cumulative

increase in ownership by "5-percent shareholders" in excess of 50 percentage points during that period. The Company continues to monitor changes in ownership. If such a cumulative increase did occur in any three year period and the Company were limited in the amount of losses it could use to offset taxable income, the Company's results of operations and cash flows would be adversely impacted.

4. Sale of Buildings

In March 2011, the Company completed the sale of three of its buildings located in Carlsbad, California, and entered into lease-back agreements for each building over a period of one to five years. The sale of these buildings was in connection with the Company's consolidating its campus into a more efficient layout, and the relocating of the Company's golf club manufacturing facilities from Carlsbad, California to Monterrey, Mexico (see Note 2). The sale resulted in net proceeds of $18,079,000 and a net gain of $12,668,000, of which $6,170,000 was recognized in general and administrative expenses during the first quarter of 2011. Due to the lease-back arrangement, the Company deferred a portion of this gain in the amount of $6,498,000, which represents the sum of the net present value of the minimum future lease payments through the end of each respective lease term. During the quarter ended March 31, 2012, the Company recognized $511,000 of this deferred gain in general and administrative expenses. The amortization of the deferred gain will offset future rent expense over the term of the leases which range from 1 to 5 years.

5. Preferred Stock Offering

In June 2009, the Company sold 1,400,000 shares of its 7.50% Series B Cumulative Perpetual Convertible Preferred Stock, $0.01 par value (the "preferred stock"). The Company received gross proceeds of $140,000,000 and incurred costs of $6,085,000, which were recorded as an offset to additional paid-in capital in the consolidated condensed statement of shareholders' equity. The terms of the preferred stock provide for a liquidation preference of $100 per share and cumulative dividends from the date of original issue at a rate of 7.50% per annum (equal to an annual rate of $7.50 per share), subject to adjustment in certain circumstances. As of March 31, 2012, the liquidation preference would have been $140,438,000. Dividends on the preferred stock are payable quarterly in arrears subject to declaration by the Board of Directors and compliance with the Company's line of credit and applicable law.

The preferred stock is generally convertible at any time at the holder's option into common stock of the Company at an initial conversion rate of 14.1844 shares of Callaway's common stock per share of preferred stock, which is equivalent to an initial conversion price of approximately $7.05 per share. Based on the initial conversion rate, approximately 19,900,000 shares of common stock would be issuable upon conversion of all of the outstanding shares of preferred stock.

The Company may also elect, on or prior to June 15, 2012, to mandatorily convert some or all of the preferred stock into shares of the Company's common stock if the closing price of the Company's common stock has exceeded 150% of the conversion price for at least 20 of the 30 consecutive trading days ending the day before the Company sends the notice of mandatory conversion. If the Company elects to mandatorily convert any preferred stock, it will make an additional payment on the preferred stock equal to the aggregate amount of dividends that would have accrued and become payable through and including June 15, 2012, less any dividends already paid on the preferred stock. As of March 31, 2012, this amount would have been $2,188,000.

On or after June 20, 2012, the Company, at its option, may redeem the preferred stock, in whole or in part, at a price equal to 100% of the liquidation preference, plus all accrued and unpaid dividends. The preferred stock has no maturity date and has no voting rights prior to conversion into the Company's common stock, except in limited circumstances.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

6. Earnings per Common Share

Earnings per common share, basic, is computed by dividing net income less preferred stock dividends (i.e., net income allocable to common shareholders) by the weighted-average number of common shares outstanding for the period. Earnings per common share, diluted, is computed by dividing net income by the weighted-average number of common and potentially dilutive common equivalent shares outstanding for the period. Weighted-average common shares outstanding—diluted is the same as weighted-average common shares outstanding—basic in periods when a net loss is reported, or in periods when diluted earnings (loss) per share is more favorable than basic earnings (loss) per share.

Dilutive securities include the common stock equivalents of convertible preferred stock, options granted pursuant to the Company's stock option plans and outstanding restricted stock units granted to employees and non-employees (see Note 14). Dilutive securities are included in the calculation of diluted earnings per common share using the treasury stock method in accordance with ASC Topic 260, "Earnings per Share" ("ASC 260").

The following table summarizes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, and reconciles the weighted-average common shares used in the computation of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended March 31,	
	2012	2011
Earnings per common share—basic		
Net Income	$31,802	$12,818
Less: Preferred stock dividends	(2,625)	(2,625)
Net Income allocable to common shareholders	$29,177	$10,193
Weighted-average common shares outstanding—basic	64,983	64,303
Basic earnings per common share	$ 0.45	$ 0.16
Earnings per common share—diluted		
Net Income	$31,802	$12,818
Weighted-average common shares outstanding—basic	64,983	64,303
Preferred stock weighted-average shares outstanding	19,858	19,858
Options, restricted stock and other dilutive securities	89	558
Weighted-average common shares outstanding—diluted	84,930	84,719
Diluted earnings per common share	$ 0.37	$ 0.15

Options with an exercise price in excess of the average market value of the Company's common stock during the period have been excluded from the calculation as their effect would be antidilutive. For the three months ended March 31, 2012 and 2011, antidilutive options outstanding totaling approximately 9,463,000 and 10,443,000 shares, respectively, were excluded from the calculations.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

7. Inventories

Inventories are summarized below (in thousands):

	March 31, 2012	December 31, 2011
Inventories:		
Raw materials	$ 50,263	$ 46,976
Work-in-process	909	1,286
Finished goods	185,068	184,808
	$236,240	$ 233,070

8. Goodwill and Intangible Assets

In accordance with ASC Topic 350, "Intangibles—Goodwill and Other," the Company's goodwill and certain intangible assets are not amortized, but are subject to an annual impairment test. The Company performs an impairment analysis on its goodwill and intangible assets at least annually and whenever events or changes in circumstances indicate that the carrying value of such assets may not be fully recoverable. The following sets forth the intangible assets by major asset class (dollars in thousands):

	Useful Life (Years)	March 31, 2012			December 31, 2011		
		Gross	Accumulated Amortization	Net Book Value	Gross	Accumulated Amortization	Net Book Value
Non-Amortizing:							
Trade name, trademark and trade dress and other	NA	$ 88,590	$ —	$ 88,590	$ 108,834	$ —	$ 108,834
Amortizing:							
Patents	2-16	36,459	29,454	7,005	36,459	28,908	7,551
Developed technology and other	1-9	12,487	7,197	5,290	12,387	6,837	5,550
Total intangible assets		$ 137,536	$ 36,651	$ 100,885	$ 157,680	$ 35,745	$ 121,935

Aggregate amortization expense on intangible assets was approximately $906,000 and $1,006,000 for the three months ended March 31, 2012 and 2011, respectively. Amortization expense related to intangible assets at March 31, 2012 in each of the next five fiscal years and beyond is expected to be incurred as follows (in thousands):

Remainder of 2012	$ 2,644
2013	2,560
2014	1,882
2015	1,844
2016	1,834
2017	846
Thereafter	685
	$12,295

Goodwill at March 31, 2012 and December 31, 2011 was $29,618,000 and $29,203,000, respectively. The increase in goodwill during the three months ended March 31, 2012 of $415,000 was due to foreign currency fluctuations. Gross goodwill before impairments at March 31, 2012 and December 31, 2011 was $30,738,000 and $30,323,000, respectively.

In March 2012, in an effort to simplify the Company's operations and increase focus on the Company's core Callaway and Odyssey business, the Company sold certain assets related to the Top-Flite brand, including world-wide trademarks and service marks for net cash proceeds of $19,900,000. In addition, in February 2012, the Company completed the sale of the Ben Hogan brand including all trademarks, service marks and certain other intellectual property for net cash proceeds of $6,961,000. At the time of sale, the net book value of the Top-Flite and Ben Hogan assets totaled $20,244,000 and were included with the net identifiable assets of the Company's golf ball operating segment. During the three months ended March 31, 2012, the Company recognized a pre-tax net gain of $6,616,000 in general and administrative expenses in the accompanying consolidated condensed statement of operations related to the sale of these two brands.

9. Investments

Investment in TopGolf International, Inc.

The Company has an investment in TopGolf International, Inc. ("TopGolf"), the owner and operator of TopGolf entertainment centers. In connection with this investment, the Company owns $20,600,000 of preferred shares of TopGolf and has a Preferred Partner Agreement with TopGolf in which the Company has preferred signage rights, rights as the preferred supplier of golf products used or offered for use at TopGolf facilities at prices no less than those paid by the Company's customers, preferred retail positioning in the TopGolf retail stores, access to consumer information obtained by TopGolf, and other rights incidental to those listed.

The Company's ownership interest in TopGolf is less than 20%. In addition, the Company does not have the ability to significantly influence the operating and financing activities and policies of TopGolf. Accordingly, the Company's investment in TopGolf is accounted for at cost in accordance with ASC Topic 325, "Investments—Other," and is included in other long-term assets in the accompanying consolidated condensed balance sheets as of March 31, 2012 and December 31, 2011.

10. Non-Controlling Interest

Investment in Qingdao Suntech Sporting Goods Limited Company

The Company has a Golf Ball Manufacturing and Supply Agreement with Qingdao Suntech Sporting Goods Limited Company ("Suntech"), where Suntech manufactures and supplies certain golf balls solely for and to the Company. In connection with the agreement, the Company provides Suntech with golf ball raw materials, packing materials, molds, tooling, as well as manufacturing equipment in order to carry out the manufacturing and supply obligations set forth in the agreement. Suntech provides the personnel as well as the facilities to effectively perform these manufacturing and supply obligations. Due to the nature of the arrangement, as well as the controlling influence the Company has in the Suntech operations, the Company is required to consolidate the financial results of Suntech in its consolidated condensed financial statements as of March 31, 2012 and December 31, 2011, in accordance with ASC Topic 810, "Consolidations."

Suntech is a wholly-owned subsidiary of Suntech Mauritius Limited Company ("Mauritius"). The Company has entered into a loan agreement with Mauritius in order to provide working capital for Suntech. In connection with this loan agreement, the Company loaned Mauritius a total of $3,200,000 of which $1,988,000 was outstanding

as of both March 31, 2012 and December 31, 2011. The Company recorded the loan in other long-term assets in the accompanying consolidated condensed balance sheets as of March 31, 2012 and December 31, 2011.

11. Product Warranty

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

	Three Months Ended March 31,	
	2012	2011
Beginning balance	$ 8,140	$ 8,427
Provision	1,854	1,951
Claims paid/costs incurred	(1,732)	(1,732)
Ending balance	$ 8,262	$ 8,646

12. Financing Arrangements

The Company has a Loan and Security Agreement with Bank of America N.A. (as amended, the "ABL Facility") which provides a senior secured asset-based revolving credit facility of up to $230,000,000, comprised of a $158,333,000 U.S. facility (of which $20,000,000 is available for letters of credit), a $31,667,000 Canadian facility (of which $5,000,000 is available for letters of credit) and a $40,000,000 United Kingdom facility (of which $2,000,000 is available for letters of credit), in each case subject to borrowing base availability under the applicable facility. Borrowing under the U.K. facility will be permitted upon satisfaction of customary conditions relating to delivery of U.K. collateral security documents. The aggregate amount outstanding under the Company's letters of credit was $2,500,000 at March 31, 2012. The amounts outstanding under the ABL Facility are secured by certain assets, including inventory and accounts receivable, of the Company's U.S., Canadian and U.K. legal entities.

As of March 31, 2012, the Company had $85,900,000 outstanding under the ABL Facility and had $51,669,000 of cash and cash equivalents. The Company's seasonality, as well as the timing of product launches will affect the level of borrowings against the Company's credit facilities. Generally, during the first quarter, the Company will rely more heavily on its credit facilities to fund operations as cash inflows from operations typically increase during the second and third quarters as a result of cash collections from customers. During 2012, the Company shifted its product launches to the first quarter. In the prior year, products were launched earlier in the fourth quarter of 2010. As such, the cash conversion cycle also shifted to later in the current year as compared to the prior year, which resulted in higher borrowings outstanding at March 31, 2012 compared to March 31, 2011. The maximum amount of Consolidated Funded Indebtedness (as defined by the ABL Facility), including borrowings under the ABL Facility, that could have been outstanding on March 31, 2012, was approximately $158,777,000. Average outstanding borrowings during the three months ended March 31, 2012 were $50,365,000. Amounts borrowed under the ABL Facility may be repaid and borrowed as needed. The entire outstanding principal amount (if any) is due and payable at maturity on June 30, 2016.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

The interest rate applicable to outstanding loans under the ABL Facility fluctuates depending on the Company's trailing-twelve month EBITDA (as defined by the ABL Facility) combined with the Company's "availability ratio" (as defined below). At March 31, 2012, the Company's interest rate applicable to its outstanding loans under the ABL Facility was 4.75%.

The Company's "availability ratio" is the ratio, expressed as a percentage of (a) the average daily availability under the ABL Facility to (b) the sum of the Canadian, the U.K. and the U.S. borrowing bases, as adjusted. All applicable margins will be permanently reduced by 0.25% if EBITDA, as defined in the ABL Facility, meets or exceeds $25,000,000 over any trailing twelve-month period, and will be permanently reduced by an additional 0.25% if EBITDA meets or exceeds $50,000,000 over any trailing twelve-month period.

In addition, the ABL Facility provides for monthly fees ranging from 0.375% to 0.5% of the unused portion of the ABL Facility, depending on the prior month's average daily balance of revolver loans and stated amount of letters of credit relative to lenders' commitments.

The ABL Facility includes certain restrictions including, among other things, restrictions on incurrence of additional debt, liens, dividends and other restricted payments, asset sales, investments, mergers, acquisitions and affiliate transactions. As of March 31, 2012, the Company was in compliance with all covenants of the ABL Facility. Additionally, the Company will be subject to compliance with a fixed charge coverage ratio covenant during, and continuing 30 days after, any period in which the Company's borrowing base availability falls below $25,000,000. The Company's borrowing base was above $25,000,000 during the three months ended March 31, 2012, and as such was not subject to compliance with the fixed charge coverage ratio.

The origination fees incurred in connection with the ABL Facility totaled $3,509,000, which will be amortized into interest expense over the term of the ABL Facility agreement. Unamortized origination fees were $3,061,000 as of March 31, 2012, of which $720,000 was included in other current assets and $2,341,000 in other long-term assets in the accompanying consolidated condensed financial statements.

13. Commitments and Contingencies

Legal Matters

The Company is subject to routine legal claims, proceedings, and investigations incident to its business activities, including claims, proceedings, and investigations relating to commercial disputes and employment matters. The Company also receives from time to time information claiming that products sold by the Company infringe or may infringe patent, trademark, or other intellectual property rights of third parties. One or more such claims of potential infringement could lead to litigation, the need to obtain licenses, the need to alter a product to avoid infringement, a settlement or judgment, or some other action or material loss by the Company, which also 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 is occasionally subject to non-routine claims, proceedings, or investigations.

The Company regularly assesses such matters to determine the degree of probability that the Company will incur a loss as a result of such matters as well as the range of possible loss. An estimated loss contingency is accrued in the Company's financial statements if it is probable the Company will incur a loss and the amount of the loss can be reasonably estimated. The Company reviews all claims, proceedings, and investigations at least quarterly and establishes or adjusts any accruals for such matters to reflect the impact of negotiations, settlements, advice of legal counsel, and other information and events pertaining to a particular matter. All legal costs associated with such matters are expensed as incurred.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Historically, the claims, proceedings and investigations brought against the Company, individually, and in the aggregate, have not had a material adverse effect upon the consolidated results of operations, cash flows, or financial position of the Company. The Company believes that it has valid legal defenses to the matters currently pending against the Company. These matters, including the matters specifically described below, are inherently unpredictable and the resolutions of those matters are subject to many uncertainties and the outcomes are not predictable with assurance. Consequently, management is unable to estimate the ultimate aggregate amount of monetary loss, amounts covered by insurance, or the financial impact that will result from such matters. Management believes that the final resolution of the current matters pending against the Company, individually and in the aggregate, will not have a material adverse effect upon the Company's consolidated financial position. It is possible, however, that the Company's results of operations or cash flows could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

Set forth below is a description of certain litigation to which the Company is a party.

The 2006 Pro V1 Golf Ball Patent Infringement Litigation

On February 9, 2006, the Company filed a complaint in the United States District Court in Delaware (Case No. C.A. 06-91) asserting patent infringement claims against the Acushnet Company, a wholly-owned subsidiary of Fortune Brands, alleging that Acushnet's Titleist Pro V1 family of golf balls infringed nine claims contained in four golf ball patents owned by the Company. The Company prevailed in a December 2007 jury trial on 8 of the 9 patent claims asserted against Acushnet. In November 2008, the Delaware District Court entered a permanent injunction prohibiting continued sales of the infringing Pro V1 golf balls by Acushnet. In August 2009, the United States Court of Appeals for the Federal Circuit reversed and remanded the case for a new trial. The case was retried and on March 29, 2010, a jury found that the claims in the patents asserted by the Company against Acushnet were invalid. On April 21, 2011, the District Court in Delaware denied, in part, the Company's motion for judgment as a matter of law and denied the Company's motion for a new trial. The Company has appealed the District Court's rulings to the Court of Appeals for the Federal Circuit, Appeal No. 2011-1407.

In 2006 Acushnet filed requests for reexamination of the patents asserted by the Company in the United States Patent and Trademark Office ("PTO"). On March 9, 2011, the Board of Patent Appeals and Interferences ("BPAI") affirmed an examiner's rejection of the patents, relying on evidence submitted by Acushnet in its requests for reexamination. On April 11, 2011, the Company asked the BPAI to reconsider its decision. On September 24, 2011, the BPAI denied the Company's request for reconsideration. The Company has appealed the BPAI's decision to the Federal Circuit, Appeal Nos. 2011-1622, 2011-1623, 2011-1624, and 2011-1625. The Company has asserted in the 2006 Pro V1 Golf Ball Patent Litigation described above that Acushnet breached a 1996 settlement agreement by filing the requests for reexamination of the asserted patents in the PTO. On January 13, 2011, the District Court in Delaware entered an order finding Acushnet breached the 1996 settlement agreement by filing the reexamination requests in the PTO. Damages for Acushnet's breach of the 1996 settlement agreement have not yet been determined by the Court or by a jury.

On March 15, 2011, the Company filed suit against the Director of the PTO in the United States District Court for the Eastern District of Virginia, Case No. 1:11 cv 266, seeking a court order vacating, holding unlawful, and setting aside the PTO's orders in the reexamination proceedings initiated by Acushnet. Among other things, the Company has alleged that the PTO's refusal to vacate or stay the reexamination proceedings—in the face of the Delaware court's order determining that the PTO proceedings were initiated in breach of the 1996 settlement agreement—exceeded the PTO's jurisdiction and authority and was arbitrary, capricious, and otherwise contrary to law. On July 27, 2011, the Court granted the PTO's motion for summary judgment, holding

that the PTO's actions were not arbitrary, capricious or contrary to the law. The Company has appealed the Court's decision to the Federal Circuit, Appeal No. 2011-1551. As set forth below, the parties have reached a settlement of the 2006 Pro V1 Golf Ball Patent Infringement Litigation, and the appeals described above will be dismissed.

The 2009 Pro V1 Golf Ball Patent Litigation

After the District Court in Delaware issued a permanent injunction barring further sales of the infringing Pro V1 golf balls in November 2008, Acushnet introduced a new version of those golf balls. On March 3, 2009, the Company filed a complaint in the United States District Court for the District of Delaware, Case No. C.A. 09131, asserting claims against Acushnet for patent infringement with regard to the new balls. Specifically, the complaint asserts that two golf ball patents owned by the Company and acquired from Top-Flite are infringed by the new versions of the Pro V1 golf balls introduced in 2009. Acushnet has filed requests for reexamination with the PTO challenging the validity of the two patents asserted by the Company in the 2009 litigation. The PTO has issued final office actions rejecting the claims of the two patents and the Company has appealed those rejections to the BPAI.

On March 3, 2009, Acushnet filed a complaint in the United States District Court for the District of Delaware, Case No. C.A. 09-130, asserting claims against the Company for patent infringement. Specifically, Acushnet asserts that the Company's sale of the Company's Tour golf balls infringe nine Acushnet golf ball patents. Acushnet then dropped one of the patents, but expanded its infringement contentions to allege that seven other models of the Company's golf balls, using the Company's patented HX surface geometry, infringe five of the Acushnet patents asserted in its suit. Acushnet is seeking damages and an injunction to prevent alleged infringement by the Company. The case was consolidated for discovery and pretrial with the Company's March 3, 2009 case against Acushnet, described above.

On February 25, 2011, the District Court in Delaware entered an order temporarily staying the 2009 cases pursuant to the stipulation of the parties. On May 6, 2011, the parties requested, and the District Court agreed, to temporarily continue the stay of the 2009 cases. Pursuant to an agreement between the parties, the stay remains in place. As set forth below, the parties have reached a settlement of this litigation, and the 2009 Pro V1 Golf ball litigation described above will be dismissed.

On April 13, 2012, Callaway Golf and Acushnet jointly announced that they reached a settlement of all pending litigation and disputes, including disputes beyond the golf ball suits described above. No money changed hands, but under the terms of the agreement, each company will have specified rights to make ball and clubs under patents owned by the other. The remaining terms of the settlement are confidential. The parties are in the process of dismissing the various suits and appeals described above.

Unconditional Purchase Obligations

During the normal course of its business, the Company enters into agreements to purchase goods and services, including purchase commitments for production materials, endorsement agreements with professional golfers and other endorsers, employment and consulting agreements, and intellectual property licensing agreements pursuant to which the Company is required to pay royalty fees. It is not possible to determine the amounts the Company will ultimately be required to pay under these agreements as they are subject to many variables including performance-based bonuses, reductions in payment obligations if designated minimum performance criteria are not achieved, and severance arrangements. As of March 31, 2012, the Company has entered into many of these contractual agreements with terms ranging from one to six years. The minimum obligation that the Company is required to pay under these agreements is $93,522,000 over the next six years. In

Table of Contents

addition, the Company also enters into unconditional purchase obligations with various vendors and suppliers of goods and services in the normal course of operations through purchase orders or other documentation or that are undocumented except for an invoice. Such unconditional purchase obligations are generally outstanding for periods less than a year and are settled by cash payments upon delivery of goods and services and are not reflected in this total. Future purchase commitments as of March 31, 2012, are as follows (in thousands):

Remainder of 2012	$53,251
2013	26,248
2014	12,490
2015	740
2016	387
2017	406
Thereafter	—
	$93,522

Other Contingent Contractual Obligations

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company's customers and licensees in connection with the use, sale and/or license of Company product or trademarks, (ii) indemnities to various lessors in connection with facility leases for certain claims arising from such facilities or leases, (iii) indemnities to vendors and service providers pertaining to the goods and services provided to the Company or based on the negligence or willful misconduct of the Company and (iv) indemnities involving the accuracy of representations and warranties in certain contracts. In addition, the Company has consulting agreements that provide for payment of nominal fees upon the issuance of patents and/or the commercialization of research results. The Company has also issued guarantees in the form of a standby letter of credit as security for contingent liabilities under certain workers' compensation insurance policies.

The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum amount of future payments the Company could be obligated to make. Historically, costs incurred to settle claims related to indemnities have not been material to the Company's financial position, results of operations or cash flows. In addition, the Company believes the likelihood is remote that material payments under the commitments and guarantees described above will have a material effect on the Company's financial condition. The fair value of indemnities, commitments and guarantees that the Company issued during the three months ended March 31, 2012 was not material to the Company's financial position, results of operations or cash flows.

Employment Contracts

In addition, the Company has made contractual commitments to each of its officers and certain other employees providing for severance payments, including salary continuation, upon the termination of employment by the Company for convenience or by the officer for substantial cause. In addition, in order to assure that the officers would continue to provide independent leadership consistent with the Company's best interest, the contracts also generally provide for certain protections in the event of an actual or threatened change in control of the Company. These protections include the payment of certain severance benefits, such as salary continuation, upon the termination of employment following a change in control.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

14. Share-Based Employee Compensation

As of March 31, 2012, the Company had one shareholder approved stock plan under which shares were available for equity-based awards: the Callaway Golf Company Amended and Restated 2004 Incentive Plan. From time to time, the Company grants stock options, restricted stock units, phantom stock units, stock appreciation rights and other awards under this plan.

The table below summarizes the amounts recognized in the financial statements for the three months ended March 31, 2012 and 2011 for share-based compensation, including expense for phantom stock units and cash settled stock appreciation rights granted to employees (in thousands):

	Three months ended March 31,	
	2012	2011
Cost of sales	$ 80	$ 163
Operating expenses	2,785	2,551
Total cost of employee share-based compensation included in income, before income tax	2,865	2,714
Amount of income tax recognized in earnings	(1,103)	(901)
Amount charged against net income	$ 1,762	$ 1,813
Impact on net income per common share:		
Basic	$ (0.03)	$ (0.03)
Diluted	$ (0.02)	$ (0.02)

Stock Options

During the three months ended March 31, 2012, the number of shares underlying stock options granted was nominal. During the three months ended March 31, 2011, the Company granted 1,731,000 shares underlying stock options at a weighted average grant-date fair value of $2.94 per share. Total compensation expense recognized for stock options during the three months ended March 31, 2012 and 2011 was $435,000 and $855,000, respectively.

The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model. The table below summarizes the weighted average Black-Scholes fair value assumptions used in the valuation of stock options granted during the three months ended March 31, 2012 and 2011.

	Three Months Ended March 31,	
	2012	2011
Dividend yield	1.2%	1.4%
Expected volatility	50.1%	48.5%
Risk free interest rate	0.8%	2.0%
Expected life	4.9 years	5.0 years

Restricted Stock Units

The Company granted 300,000 shares underlying restricted stock units during the three months ended March 31, 2012 at a weighted average grant-date fair value of $6.48. The number of shares underlying restricted stock units granted during the three months ended March 31, 2011 was nominal. Total compensation expense

recognized for restricted stock units during the three months ended March 31, 2012 and 2011 was $352,000 and $640,000, respectively. At March 31, 2012, the Company had $3,052,000 of total unrecognized compensation expense related to non-vested shares granted to employees and non-employees under the Company’s share-based compensation plan related to restricted stock units. The amount of unrecognized compensation expense noted above does not necessarily represent the amount that will ultimately be realized by the Company in its consolidated condensed statement of operations due to the application of forfeiture rates.

Phantom Stock Units

Phantom stock units (“PSUs”) are a form of share-based awards that are indexed to the Company’s common stock and are settled in cash. As such, PSUs are accounted for as liabilities and are remeasured based on the closing price of the Company’s common stock at the end of each interim period through the settlement date of the awards. PSUs vest over two and three year periods and compensation expense is recognized on a straight-line basis over these vesting periods.

During the first quarter of 2012, the Company granted 284,000 shares of PSUs with a grant date fair value of $1,900,000. The Company did not grant PSUs in 2011. At March 31, 2012, the fair value of total PSUs outstanding was $6,265,000. Compensation expense recognized for the three months ended March 31, 2012 and 2011 was $857,000 and $416,000, respectively. In connection with the PSUs, at March 31, 2012 and December 31, 2011, the Company accrued $1,556,000 and $1,325,000, respectively, in accrued employee compensation and benefits, and $1,027,000 and $594,000, respectively, in long-term other liabilities in the accompanying consolidated condensed balance sheets.

Stock Appreciation Rights

During the three months ended March 31, 2012, the Company granted 3,100,000 of cash settled stock appreciation rights (“SARs”). The Company records compensation expense for SARs based on the estimated fair value using the Black Scholes option-pricing model. SARs are remeasured based on a revised Black Scholes value at each interim reporting period until they reach the expected term date. As of March 31, 2012, the Company recognized $1,221,000 in compensation expense related to these awards, accrued $1,329,000 and $321,000 at March 31, 2012 and December 31, 2011, respectively, in accrued employee compensation and benefits in the accompanying consolidated condensed balance sheets. At March 31, 2012, the Company accrued $213,000 in long-term other liabilities in the accompanying consolidated condensed balance sheet. There was no accrual in long-term other liabilities at December 31, 2011.

In connection with an employment agreement with a former executive officer of the Company, the Company was contractually obligated to grant $11,730,000 in the form of various share-based awards over the service period stipulated in the agreement. As a result, the total contractual obligation related to these equity awards was recognized on a straight-line basis over the contract term, which resulted in the recognition of compensation expense of $699,000 during the first quarter of 2011. The executive’s employment with the Company terminated in June 2011. As such, any remaining share-based compensation expense related to the executive’s employment agreement was recognized in June 2011.

15. Fair Value of Financial Instruments

The Company’s foreign currency exchange contracts are measured and reported on a fair value basis in accordance with ASC Topic 820, “Fair Value Measurements and Disclosures” (“ASC 820”). ASC 820 defines fair value as the price that would be received to sell an asset or the price paid to transfer a liability (the exit price)

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

in the principal and most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires the classification of assets and liabilities carried at fair value using a three-tier hierarchy based upon observable and unobservable inputs as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities
Level 2: Observable market based inputs that are corroborated by market data
Level 3: Unobservable inputs that are not corroborated by market data

The following table summarizes the valuation of the Company's foreign currency exchange contracts by the above pricing levels as of the valuation dates listed (in thousands):

	March 31, 2012		December 31, 2011	
	Carrying Value	Observable market based inputs (Level 2)	Carrying Value	Observable market based inputs (Level 2)
Foreign currency derivative instruments—asset position	$ 4,910	$ 4,910	$ 2,514	$ 2,514
Foreign currency derivative instruments—liability position	797	797	3,746	3,746

The fair value of the Company's foreign currency exchange contracts is determined based on observable inputs that are corroborated by market data. Foreign currency derivatives on the balance sheet are recorded at fair value with changes in fair value recorded in the statement of operations. See Note 16 below for further information on foreign currency exchange contracts.

Nonrecurring Fair Value Measurements

The Company measures certain assets at fair value on a nonrecurring basis at least annually or when certain indicators are present. These assets include property, plant and equipment, goodwill and non-amortizing intangible assets that are written down to fair value when they are held for sale or determined to be impaired. During the three months ended March 31, 2012 and 2011, the Company did not have any significant assets or liabilities that were measured at fair value on a nonrecurring basis in periods subsequent to initial recognition.

16. Derivatives and Hedging

The Company accounts for its foreign currency exchange contracts in accordance with ASC Topic 815, "Derivatives and Hedging" ("ASC 815"). ASC 815 requires the recognition of all derivatives as either assets or liabilities on the balance sheet, the measurement of those instruments at fair value and the recognition of changes in the fair value of derivatives in earnings in the period of change, unless the derivative qualifies as an effective hedge that offsets certain exposures. In addition, it requires enhanced disclosures regarding derivative instruments and hedging activities to better convey the purpose of derivative use in terms of the risks the Company is intending to manage, specifically about (a) how and why the Company uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under ASC 815, and (c) how derivative instruments and related hedged items affect the Company's financial position, financial performance, and cash flows.

In the normal course of business, the Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to transactions of its international subsidiaries, including certain balance sheet exposures (payables and receivables denominated in foreign currencies). In addition, the Company is exposed to gains and losses resulting from the translation of the operating results of the Company's international subsidiaries into U.S. dollars for financial reporting purposes. As part of its strategy to manage the level of exposure to the risk of fluctuations in foreign currency exchange rates, the Company uses derivative financial

instruments in the form of foreign currency forward contracts and put and call option contracts ("foreign currency exchange contracts") to hedge transactions that are denominated primarily in British Pounds, Euros, Japanese Yen, Canadian Dollars, Australian Dollars and Korean Won. Foreign currency exchange contracts are used only to meet the Company's objectives of minimizing variability in the Company's operating results arising from foreign currency exchange rate movements. The Company does not enter into foreign currency exchange contracts for speculative purposes. Foreign currency exchange contracts usually mature within twelve months from their inception.

The Company did not designate any foreign currency exchange contracts as derivatives that qualify for hedge accounting under ASC 815. At March 31, 2012 and December 31, 2011, the notional amounts of the Company's foreign currency exchange contracts used to hedge the exposures discussed above were approximately $197,287,000 and $165,533,000, respectively, of which $104,318,000 and $131,311,000, respectively, represent contracts used to hedge exposures in operating results from the translation of revenues and expenses of the Company's international subsidiaries into U.S. dollars and $92,969,000 and $34,222,000, respectively, represents contracts used to hedge balance sheet exposures denominated in foreign currencies. The Company estimates the fair values of foreign currency exchange contracts based on pricing models using current market rates, and records all derivatives on the balance sheet at fair value with changes in fair value recorded in the statement of operations.

The following table summarizes the fair value of derivative instruments by contract type as well as the location of the asset and/or liability on the consolidated condensed balance sheets at March 31, 2012 and December 31, 2011 (in thousands):

	Asset Derivatives			
	March 31, 2012		December 31, 2011	
Derivatives not designated as hedging instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency exchange contracts	Other current assets	$ 4,910	Other current assets	$ 2,514

	Liability Derivatives			
	March 31, 2012		December 31, 2011	
Derivatives not designated as hedging instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency exchange contracts	Accounts payable and accrued expenses	$ 797	Accounts payable and accrued expenses	$ 3,746

The following table summarizes the location of gains and losses in the consolidated condensed statements of operations that were recognized during the three months ended March 31, 2012 and 2011, respectively, in addition to the derivative contract type (in thousands):

		Amount of Gain (Loss) Recognized in Income on Derivative Instruments	
		Three months ended March 31,	
Derivatives not designated as hedging instruments under SFAS No. 133	Location of gain (loss) recognized in income on derivative instruments	2012	2011
Foreign currency exchange contracts	Other income (expense), net	$ 5,685	$ (1,339)

The net realized and unrealized net gains and losses noted in the table above for the three months ended March 31, 2012 and 2011 were used by the Company to offset actual foreign currency transactional net gains and losses associated with the translation of foreign currencies in operating results.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

17. Segment Information

The Company has two operating segments that are organized on the basis of products, which are segregated between golf clubs and golf balls. The golf clubs segment consists primarily of Callaway Golf woods, hybrids, irons, wedges and putters as well as Odyssey putters, other golf-related accessories, including uPro GPS on-course measurement devices, royalties from licensing of the Company's trademarks and service marks as well as sales of pre-owned golf clubs. The golf balls segment consists primarily of Callaway Golf balls and Top-Flite golf balls until the sale of the Top-Flite brand in March 2012 (see Note 8). There are no significant intersegment transactions.

The table below contains information utilized by management to evaluate its operating segments for the interim periods presented (in thousands):

	Three Months Ended March 31,	
	2012	2011
Net sales		
Golf Clubs	$242,552	$240,986
Golf Balls	42,546	44,613
	$285,098	$285,599
Income before income taxes		
Golf Clubs[1]	$ 32,640	$ 29,305
Golf Balls[1]	1,577	2,300
Reconciling items[2][3]	(2,707)	(10,007)
	$ 31,510	$ 21,598
Additions to long-lived assets		
Golf Clubs	$ 7,506	$ 5,098
Golf Balls	184	2,100
	$ 7,690	$ 7,198

(1) Certain prior period amounts were reclassified to conform with the current year presentation.

(2) In connection with the Company's GOS Initiatives, during the three months ended March 31, 2011, the Company's golf club and golf ball operating segments absorbed pre-tax charges of $4,540,000 and $1,762,000, respectively. The Company completed the final phase of its GOS Initiatives in December 2011 and, as such, charges incurred in 2012 were nominal (see Note 2).

(3) Represents corporate general and administrative expenses and other income (expense) not included by management in determining segment profitability. The reconciling items include (i) pre-tax charges of $442,000 for the three months ended March 31, 2012 in connection with the Reorganization and Reinvestment Initiatives (see Note 2), (ii) the recognition of a pre-tax gain of $6,616,000 during the three months ended March 31, 2012 in connection with the sale of Top-Flite and Ben Hogan brands (see Note 8), and (iii) a pre-tax gain of $6,170,000 recognized in connection with the sale of certain buildings during the three months ended March 31, 2011 (see Note 4).

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

The following discussion should be read in conjunction with the Consolidated Condensed Financial Statements and the related notes that appear elsewhere in this report. See also "Important Notice to Investors" on page 2 of this report.

Results of Operations

Overview of Business and Seasonality

The Company designs, manufactures and sells high quality golf clubs and golf balls and also sells golf apparel, golf footwear, golf bags, gloves, eyewear and other golf-related accessories, including uPro GPS on-course measurement devices. The Company designs its products to be technologically advanced and in this regard invests a considerable amount in research and development each year. The Company's golf products are designed for golfers of all skill levels, both amateur and professional.

The Company has two operating segments that are organized on the basis of products, namely the golf clubs segment and golf balls segment. The golf clubs segment consists primarily of Callaway Golf woods, hybrids, irons, wedges and putters as well as Odyssey putters. This segment also includes other golf-related accessories described above and royalties from licensing of the Company's trademarks and service marks as well as sales of pre-owned golf clubs. The golf balls segment consists primarily of Callaway Golf and Top-Flite golf balls, until the sale of the Top-Flite brand in March 2012 (see Note 8). As discussed in Note 17 "Segment Information" to the Notes to Consolidated Condensed Financial Statements, the Company's operating segments exclude a significant amount of corporate general administrative expenses and other income (expense) not utilized by management in determining segment profitability.

In most of the regions where the Company does business, the game of golf is played primarily on a seasonal basis. Weather conditions generally restrict golf from being played year-round, except in a few markets, with many of the Company's on-course customers closing for the cold weather months. The Company's business is therefore also subject to seasonal fluctuations. In general, during the first quarter, the Company begins selling its products into the golf retail channel for the new golf season. This initial sell-in generally continues into the second quarter. The Company's second quarter sales are significantly affected by the amount of reorder business of the products sold during the first quarter. The Company's third quarter sales are generally dependent on reorder business but are generally less than the second quarter as many retailers begin decreasing their inventory levels in anticipation of the end of the golf season. The Company's fourth quarter sales are generally less than the other quarters due to the end of the golf season in many of the Company's key markets. However, fourth quarter sales can be affected from time to time by the early launch of product introductions related to the new golf season of the subsequent year. This seasonality, and therefore quarter to quarter fluctuations, can be affected by many factors, including the timing of new product introductions. In general, however, because of this seasonality, a majority of the Company's sales and most, if not all, of its profitability generally occurs during the first half of the year.

Approximately half of the Company's business is conducted outside of the United States and is conducted in currencies other than the U.S. dollar. As a result, changes in foreign currency rates can have a significant effect on the Company's financial results. The Company enters into foreign currency exchange contracts to mitigate the effects of changes in foreign currency rates. While these foreign currency exchange contracts can mitigate the effects of changes in foreign currency rates, they do not eliminate those effects, which can be significant. These effects include (i) the translation of results denominated in foreign currency into U.S. dollars for reporting purposes, (ii) the mark-to-market adjustments of certain intercompany balance sheet accounts denominated in foreign currencies, and (iii) the mark-to-market adjustments on the Company's foreign currency exchange contracts. In general, the Company's overall financial results are affected positively by a weaker U.S. dollar and are affected negatively by a stronger U.S. dollar as compared to the foreign currencies in which the Company conducts its business. The impact of the translation of sales denominated in foreign currencies into U.S. dollars was not significant in the first quarter of 2012.

Executive Summary

The Company's overall financial results improved during the first quarter of 2012 compared to the first quarter of 2011. Although the Company's net sales remained relatively constant, the Company's gross margins, operating expenses, and earnings improved. The Company also made progress on many of its strategic initiatives that were implemented to enable the Company to focus on the Company's core business. These initiatives included the sale of the Top-Flite and Ben Hogan brands, which was completed during the first quarter of 2012 for net cash proceeds of $26.9 million. Sales of Top-Flite and Ben Hogan branded products represented approximately 6% of the Company's total 2011 annual sales.

The Company's sales remained constant at approximately $285 million, with increases in sales of woods, premium golf balls, and accessoriesbeing offset by decreased sales in irons, putters and value golf balls, and with increased sales in the United States and Japan being offset by decreases in Europe, Rest of Asia, and other countries. One of the Company's primary objectives going forward will be to address the loss of market share in the irons product segment, which contributed to the decrease in irons during the first quarter.

For the first quarter of 2012, the Company's gross margin increased to 44% compared to 43% for the same period in 2011. The increase in gross margin was primarily attributable to the Company's completion of its global operations strategy initiatives in December 2011. During the first quarter of 2011, gross margin was negatively affected by $6.3 million of costs (or 220 basis points) in connection with these initiatives. Gross margin was adversely impacted this year by higher club component costs due to more expensive technology incorporated into the Company's new Razr Fit product line.

The Company's operating expenses improved to $96.5 million during the first quarter of 2012 compared to $100.7 million during the same period in the prior year despite incremental investment in brand and demand creation initiatives. The Company's operating expenses for the first quarter of 2012 include a $6.6 million gain on the sale of the Top-Flite and Ben Hogan brands, and the Company's operating expenses for the first quarter of 2011 include a gain of $6.2 million related to the sale of three buildings completed during the first quarter in the prior year. The improvement in operating expenses is primarily due to a decrease in employee costs resulting primarily from a reduction in accrued incentive compensation as well as a decline in personnel resulting from the Company's 2011 Reorganization and Reinvestment Initiatives.

Net income for the first quarter of 2012 increased to $31.8 million compared to $12.8 million in the comparable quarter of 2011. Diluted earnings per share increased to $0.37 in the first quarter of 2012 compared to $0.15 in the comparable period of 2011. The Company's net income and earnings per share for the first quarter of 2012 compared to the same period in 2011 benefited not only from the increase in gross margins and improvement in operating expenses discussed above but also from a $5.1 million increase in other income resulting from an increase in net foreign currency gains and a $9.1 million improvement in income taxes.

Although the Company's 2012 first quarter financial results improved over the same period in 2011, management is not satisfied with the pace at which the Company's financial performance and market position are recovering. As a result, management intends to take action to accelerate the pace of recovery, including not only continuing the previously announced investment in brand and demand creation initiatives but also instituting operating changes aimed at improving the efficiency of these investments. Management believes that these actions, together with its renewed focus on its core Callaway Golf and Odyssey brands, will enable the Company to regain market share and improve its financial results.

Three-Month Periods Ended March 31, 2012 and 2011

Net sales for the first quarter of 2012 remained relatively flat at $285.1 million compared to $285.6 million in the first quarter of 2011. This slight decrease was primarily due to declines in sales of irons and putters primarily due to later planned launch timing as well as declines in market share in the irons category. These decreases were almost entirely offset by an increase in sales of the Company's woods and accessories and other

product categories resulting from the introduction of the Company's Razr X Black and Razr Fit woods during the first quarter of 2012 compared to the prior year launch of the Diablo Octane woods during Q4 of 2010. The Company's net sales by operating segment are presented below (dollars in millions):

	Three Months Ended March 31,		Growth/(Decline)	
	2012	2011	Dollars	Percent
Net sales:				
Golf clubs	$ 242.6	$ 241.0	$ 1.6	1%
Golf balls	42.5	44.6	(2.1)	(5)%
	$ 285.1	$ 285.6	$ (0.5)	0%

For further discussion of each operating segment's results, see "Golf Club and Golf Ball Segments Results" below.

Net sales information by region is summarized as follows (dollars in millions):

	Three Months Ended March 31,		Growth/(Decline)	
	2012	2011	Dollars	Percent
Net sales:				
United States	$ 149.7	$ 145.4	$ 4.3	3%
Europe	42.7	46.2	(3.5)	(8)%
Japan	42.2	37.5	4.7	13%
Rest of Asia	18.0	23.5	(5.5)	(23)%
Other countries	32.5	33.0	(0.5)	(2)%
	$ 285.1	$ 285.6	$ (0.5)	0%

Net sales in the United States increased $4.3 million (3%) to $149.7 million during the first quarter of 2012 compared to the same period in the prior year. As mentioned above, this increase was primarily due to the timing of planned product launches primarily in the woods category. The Company's sales in regions outside of the United States decreased $4.8 million to $135.4 million for the first quarter of 2012 compared to $140.2 million in the same quarter of 2011. This decrease was largely caused by a decline in sales in Korea of $3.4 million primarily due to no new Legacy launch in that region during the first quarter of 2012 as well as a decline in sales in Canada. This was partially offset by an increase in sales in Japan due to the earthquake and Tsunami in March 2011 which negatively impacted sales in that region in the prior year. The impact of the translation of foreign currency sales into U.S. dollars based upon 2011 exchange rates was relatively neutral in the first quarter of 2012. If 2011 exchange rates were applied to 2012 reported sales in regions outside the U.S. and all other factors were held constant, net sales in such regions would have been $0.5 million less than reported in the first quarter of 2012.

For the first quarter of 2012, gross profit increased $0.7 million to $124.4 million from $123.7 million in the first quarter of 2011. Gross profit as a percentage of net sales ("gross margin") increased to 44% in the first quarter of 2012 compared to 43% in the first quarter of 2011. The increase in gross margin was primarily attributable to the Company's completion of its Global Operations Strategy initiatives in December 2011. During the first quarter of 2011, gross margin was negatively affected by $6.3 million of costs (or 2.2 margin points) in connection with these initiatives. During the first quarter of 2012, gross margin was negatively affected by (i) an increase in club component costs due to a combination of more expensive materials and technology incorporated in to the new family of Razr golf clubs; (ii) increased closeout activity within the putters category; and (iii) an unfavorable shift in product mix within the irons category. See "Segment Profitability" below for further discussion of gross margins.

Selling expenses increased by $1.6 million to $76.8 million (27% of net sales) in the first quarter of 2012 compared to $75.2 million (26% of net sales) in the comparable period of 2011. The dollar increase was primarily due to a $4.4 million increase in advertising and promotional expenses, which is consistent with the Company's Reorganization and Reinvestment Initiatives announced in June 2011, partially offset by a $3.3 million decrease in employee costs primarily as a result of a decline in incentive compensation and headcount period over period.

General and administrative expenses decreased by $4.1 million to $12.2 million (4% of net sales) in the first quarter of 2012 compared to $16.3 million (6% of net sales) in the comparable period of 2011. The decrease was primarily due to the recognition of a $6.6 million net gain in connection with the sale of the Company's Top-Flite and Ben Hogan brands during the first quarter of 2012, combined with a $2.8 million decrease in employee costs primarily due to a reduction in incentive compensation and headcount period over period. These decreases were partially offset by a $6.2 million net gain recognized in the first quarter of 2011 as a result of the sale of certain buildings.

Research and development expenses decreased by $1.7 million to $7.5 million (3% of net sales) in the first quarter of 2012 compared to $9.2 million (3% of net sales) in the comparable period of 2011 primarily due to reductions in employee costs as a result of a decline in incentive compensation and headcount period over period.

Other income/expense improved to other income of $3.7 million in the first quarter of 2012 compared to other expense of $1.4 million in the comparable period of 2011. This improvement was primarily due to an increase in net foreign currency gains in the first quarter of 2012 compared to the same period in 2011.

The Company's provision for income taxes was a benefit of $0.3 million for the first quarter of 2012, compared to a provision of $8.8 million for the comparable period of 2011. During the second quarter of 2011, the Company established a valuation allowance against its U.S. deferred tax assets. Due to the effects of this deferred tax asset valuation allowance, the Company's effective tax rate for the first quarter of 2012 is not comparable to the effective tax rate for the first quarter of 2011 as the Company's income tax amount is not directly correlated to the amount of its pretax income.

Net income for the first quarter of 2012 increased to $31.8 million compared to $12.8 million in the comparable quarter of 2011. Diluted earnings per share increased to $0.37 in the first quarter of 2012 compared to $0.15 in comparable period of 2011. The Company's net income for the first quarter of 2012 and 2011 includes the following charges and gains (in millions):

	Three Months Ended March 31,	
	2012	2011
Pre-tax gain on the sale of brands	$ 6.6	$ —
Pre-tax gain on sale of buildings	—	6.2
Pre-tax Global Operation Strategy charges	—	(6.5)
Income tax benefit (provision)[1]	0.3	(8.8)
Total charges	$ 6.9	$ (9.1)

(1) The Company's income tax provision for 2012 is affected by the establishment of a valuation allowance against the Company's U.S. deferred tax assets and is therefore not directly correlated to the amount of its pretax income. See Note 3 "Income Taxes" to the Notes to Consolidated Condensed Financial Statements included in this Form 10-Q.

Golf Clubs and Golf Balls Segments Results for the Three Months Ended March 31, 2012 and 2011

Golf Clubs Segment

Net sales information by product category is summarized as follows (dollars in millions):

	Three Months Ended March 31,		Growth/(Decline)	
	2012	2011[(1)]	Dollars	Percent
Net sales:				
Woods	$ 90.7	$ 81.0	$ 9.7	12%
Irons	58.3	70.0	(11.7)	(17)%
Putters	24.1	28.9	(4.8)	(17)%
Accessories and other	69.4	61.1	8.3	14%
	$ 242.5	$ 241.0	$ 1.5	1%

(1) Certain prior period amounts were reclassified to conform with the current year presentation.

The $9.7 million (12%) increase in net sales of woods to $90.7 million for the quarter ended March 31, 2012 was primarily due to an increase in sales volume with relatively flat average selling prices. The increase in sales volume was primarily due to the later launch timing of the Razr X Black and Razr Fit drivers and fairway woods, which were launched during the current quarter compared to the prior year Diablo Octane drivers and fairway woods which were launched during the fourth quarter of 2010. This was partially offset by no new Legacy woods launch during the first quarter of 2012. Although overall woods average selling prices were flat, average selling prices for drivers decreased which was almost entirely offset by an increase in fairway woods average selling prices and a favorable shift in sales mix with less sales of lower priced hybrids.

The $11.7 million (17%) decrease in net sales of irons to $58.3 million for the quarter ended March 31, 2012 was primarily attributable to a decline in sales volume with relatively flat average selling prices. The decline in sales volume was primarily due to declines in market share resulting from less favorable consumer acceptance of the irons models launched in the current year compared to the strong performance of Razr X launched in 2011. Sales volumes for the first quarter were also unfavorably affected by the later planned launch of the Razr X HL irons which were launched later during the first quarter in 2012 compared to the prior year Razr X irons which were launched in the fourth quarter in 2010, and resulted in less reorder sales during the first quarter of 2012 compared to the first quarter of the prior year.

The $4.8 million (17%) decrease in net sales of putters to $24.1 million for the quarter ended March 31, 2012 was primarily attributable to a decline in average selling prices combined with a decline in sales volume. The decrease in average selling prices was attributable to an increase in closeout activity during the first quarter of 2012 compared to the same period in the prior year. The decrease in sales volume was primarily due to fewer new putter models offered in the first quarter of 2012 compared to the same period in the prior year.

The $8.3 million (14%) increase in net sales of accessories and other products to $69.4 million for the quarter ended March 31, 2012 was primarily driven by an increase in sales of packaged sets and apparel partially offset by a decline in sales of footwear and GPS devices during the quarter.

Golf Balls Segment

Net sales information for the golf balls segment is summarized as follows (dollars in millions):

	Three Months Ended March 31,		Decline	
	2012	2011	Dollars	Percent
Net sales:				
Golf balls	$ 42.5	$ 44.6	$ (2.1)	(5)%

The $2.1 million (5%) decrease in net sales of golf balls to $42.5 million for the quarter ended March 31, 2012 was primarily due to a decrease in sales volume partially offset by an increase in average selling prices. The decrease in sales volume was primarily due to a decline in sales of Top-Flite balls primarily resulting from no new Top-Flite ball launch in 2012. The increase in average selling prices was due to a favorable shift in sales mix from lower priced Top-Flite balls to higher priced Callaway golf balls.

Segment Profitability

Profitability by operating segment is summarized as follows (dollars in millions):

	Three Months Ended March 31,		Growth/(Decline)	
	2012	2011[1]	Dollars	Percent
Income before income taxes				
Golf clubs[2]	$ 32.6	$ 29.3	$ 3.3	11%
Golf balls[2]	1.6	2.3	(0.7)	(30)%
Reconciling items[3]	(2.7)	(10.0)	7.3	(73)%
	$ 31.5	$ 21.6	$ 9.9	46%

(1) Certain prior period amounts were reclassified to conform with the current year presentation.

(2) In connection with the final phase of the Company's GOS Initiatives (See Note 2 to the Notes to Consolidated Condensed Financial Statements), during the three months ended March 31, 2011, the Company's golf clubs and golf balls segments absorbed $4.5 million and $1.8 million, respectively, in pre-tax charges related to these initiatives. The Company completed the final phase of the GOS initiatives in December 2011, and as such, the charges incurred in 2012 were nominal.

(3) Reconciling items represent corporate general and administrative expenses and other income (expense) not included by management in determining segment profitability. For the first quarter of 2012, the reconciling items include a pre-tax gain of $6.6 million in connection with the sale of the Top-Flite and Ben Hogan brands, and for the first quarter of 2011, the reconciling items include a pre-tax gain of $6.2 million in connection with the sale of certain buildings.

Pre-tax income in the Company's golf clubs operating segment increased to $32.6 million for the first quarter of 2012 from $29.3 million for the comparable period in the prior year. This increase was primarily driven by an increase in net sales as discussed above combined with an increase in gross margin and a decrease in operating expenses. The increase in gross margin was primarily driven by (i) the Company's completion of its GOS initiatives in December 2011. During the first quarter of 2011, the golf clubs segment absorbed $4.5 million of costs in connection with these initiatives compared to nominal charges incurred during the first quarter of 2012; and (ii) cost savings resulting from the Company's GOS Initiatives, primarily for reductions on club conversion costs generated from labor savings on clubs produced in the Company's manufacturing facility in Monterrey, Mexico. These increases were partially offset by (i) an increase in club component costs due to a combination of more expensive materials and technology incorporated in to the new family of Razr drivers; (ii) an increase in close-out activity on the older White Ice family of putters; (iii) the introduction of Razr X drivers in the current quarter at a lower average selling price as compared to the Diablo Octane drivers that were launched in the fourth quarter of 2010; and (iv) an unfavorable shift in product mix within the irons category from sales of higher margin Razr X irons in the first quarter of 2011 to sales of lower margin Razr X HL irons in the first quarter of 2012.

Pre-tax income in the Company's golf balls operating segment decreased to $1.6 million for the first quarter of 2012 from $2.3 million for the comparable period in the prior year. This decrease was primarily attributable to the decrease in net sales as discussed above, partially offset by an increase in gross margin, which was primarily due to the Company's completion of its GOS initiatives in December 2011. During the first quarter of 2011, the golf balls segment absorbed $1.8 million of costs in connection with these initiatives compared to nominal

charges incurred during the first quarter of 2012. The Company completed the sale of its Top-Flite and Ben Hogan brands during the first quarter of 2012. In recent years, sales of Top-Flite and Ben Hogan branded golf balls have represented approximately 25% of the Company's total golf ball annual sales. However the Company is in the process of implementing strategies to replace these sales by reinvesting the proceeds from the sale of the Top-Flite and Ben Hogan brands into more profitable future products.

Financial Condition

The Company's cash and cash equivalents increased $8.7 million to $51.7 million at March 31, 2012, from $43.0 million at December 31, 2011. The levels of cash and cash equivalents fluctuate with the seasonality of the Company's business and are affected by the timing of product launches. Generally, during the first quarter, the Company will rely more heavily on its credit facility to fund operations as cash inflows from operations begin to increase during the second quarter as a result of cash collections from customers. During the three months ended March 31, 2012, the Company used its cash and cash equivalents, net proceeds of $26.9 million from the sale of the Top-Flite and Ben Hogan brands, and borrowings from its credit facility to fund $92.4 million of cash used in operating activities in addition to $8.7 million in capital expenditures. Management expects to fund the Company's future operations from cash provided by its operating activities combined with borrowings from its credit facility, as deemed necessary (see further information on the Company's credit line below).

The Company's accounts receivable balance fluctuates throughout the year as a result of the general seasonality of the Company's business. The Company's accounts receivable balance will generally be at its highest during the first and second quarters and decline significantly during the third and fourth quarters as a result of an increase in cash collections and lower sales. As of March 31, 2012, the Company's net accounts receivable increased $139.6 million to $255.3 million from $115.7 million as of December 31, 2011. The increase in accounts receivable reflects the general seasonality of the business and was primarily attributable to net sales of $285.1 million during the first quarter of 2012 compared to net sales of $153.9 million during the fourth quarter of 2011. The Company's net accounts receivable decreased by $11.4 million as of March 31, 2012 compared to the Company's net accounts receivable as of March 31, 2011. This decrease was primarily attributable to an improvement in past due receivables as a result of improved cash collections.

The Company's inventory balance also fluctuates throughout the year as a result of the general seasonality of the Company's business. Generally, the Company's buildup of inventory levels begins during the fourth quarter and continues heavily into the first quarter as well as into the beginning of the second quarter in order to meet demand during the height of the golf season. Inventory levels start to decline toward the end of the second quarter and are at their lowest during the third quarter. Inventory levels are also impacted by the timing of new product launches. The Company's net inventory increased $3.1 million to $236.2 million as of March 31, 2012 compared to $233.1 million as of December 31, 2011. The Company's net inventory decreased by $21.7 million as of March 31, 2012 compared to the Company's net inventory as of March 31, 2011. Net inventories as a percentage of the trailing twelve months net sales decreased to 26.7% as of March 31, 2012 compared to 27.1% as of March 31, 2011. This decrease was driven primarily by a reduction in golf ball inventory levels due to an increase in close-out activity of older golf ball models as well as range balls.

Liquidity and Capital Resources

Sources of Liquidity

The Company has a Loan and Security Agreement with Bank of America N.A. (as amended, the "ABL Facility") which provides a senior secured asset-based revolving credit facility of up to $230.0 million, comprised of a $158.3 million U.S. facility (of which $20.0 million is available for letters of credit), a $31.7 million Canadian facility (of which $5.0 million is available for letters of credit) and a $40.0 million United Kingdom facility (of which $2.0 million is available for letters of credit), in each case subject to borrowing base availability under the applicable facility. Borrowing under the U.K. facility will be permitted upon satisfaction of

customary conditions relating to delivery of U.K. collateral security documents. The aggregate amount outstanding under the Company's letters of credit was $2.5 million at March 31, 2012. The amounts outstanding under the ABL Facility are secured by certain assets, including inventory and accounts receivable, of the Company's U.S., Canadian and U.K. legal entities.

As of March 31, 2012, the Company had $85.9 million outstanding under the ABL Facility and had $51.7 million of cash and cash equivalents. The Company's seasonality, as well as the timing of product launches will affect the level of borrowings against the Company's credit facilities. Generally, during the first quarter, the Company will rely more heavily on its credit facilities to fund operations as cash inflows from operations typically increase during the second and third quarters as a result of cash collections from customers. During 2012, the Company shifted its product launches to the first quarter. In the prior year, products were launched earlier in the fourth quarter of 2010. As such, the cash conversion cycle also shifted to later in the current year as compared to the prior year, which resulted in higher borrowings outstanding at March 31, 2012 compared to March 31, 2011. The maximum amount of Consolidated Funded Indebtedness (as defined by the ABL Facility), including borrowings under the ABL Facility, that could have been outstanding on March 31, 2012, was approximately $158.8 million. Average outstanding borrowings during the three months ended March 31, 2012 was $50.4 million. Amounts borrowed under the ABL Facility may be repaid and borrowed as needed. The entire outstanding principal amount (if any) is due and payable at maturity on June 30, 2016.

The interest rate applicable to outstanding loans under the ABL Facility fluctuates depending on the Company's trailing-twelve month EBITDA (as defined by the ABL Facility) combined with the Company's "availability ratio" (as defined below). At March 31, 2012, the Company's interest rate applicable to its outstanding loans under the ABL Facility was 4.75%.

The Company's "availability ratio" is the ratio, expressed as a percentage, of (a) the average daily availability under the ABL Facility to (b) the sum of the Canadian, the U.K. and the U.S. borrowing bases, as adjusted. All applicable margins will be permanently reduced by 0.25% if EBITDA, as defined in the ABL Facility, meets or exceeds $25.0 million over any trailing twelve-month period, and will be permanently reduced by an additional 0.25% if EBITDA meets or exceeds $50.0 million over any trailing twelve-month period.

In addition, the ABL Facility provides for monthly fees ranging from 0.375% to 0.5% of the unused portion of the ABL Facility, depending on the prior month's average daily balance of revolver loans and stated amount of letters of credit relative to lenders' commitments.

The ABL Facility includes certain restrictions including, among other things, restrictions on incurrence of additional debt, liens, dividends and other restricted payments, asset sales, investments, mergers, acquisitions and affiliate transactions. As of March 31, 2012 the Company was in compliance with all covenants of the ABL Facility. Additionally, the Company will be subject to compliance with a fixed charge coverage ratio covenant during, and continuing 30 days after, any period in which the Company's borrowing base availability falls below $25.0 million. The Company's borrowing base was above $25.0 million during the three months ended March 31, 2012, and as such was not subject to compliance with the fixed charge coverage ratio.

The origination fees incurred in connection with the ABL Facility totaled $3.5 million, which will be amortized into interest expense over the term of the ABL Facility agreement. Unamortized origination fees were $3.1 million as of March 31, 2012, of which $0.7 million was included in other current assets and $2.3 million in other long-term assets in the accompanying consolidated financial statements.

Other Significant Cash and Contractual Obligations

The following table summarizes certain significant cash obligations as of March 31, 2012 that will affect the Company's future liquidity (in millions):

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Unconditional purchase obligations(1)	$ 93.5	$ 53.3	$ 38.7	$ 1.1	$ 0.4
Dividends on convertible preferred stock(2)	2.2	2.2	—	—	—
Operating leases(3)	34.3	13.2	13.8	5.8	1.5
Uncertain tax contingencies(4)	9.9	1.2	1.7	4.0	3.0
Total	$139.9	$ 69.9	$ 54.2	$ 10.9	$ 4.9

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

(2) The Company may elect, on or prior to June 15, 2012, to mandatorily convert some or all of the preferred stock into shares of the Company's common stock if the closing price of the Company's common stock has exceeded 150% of the conversion price for at least 20 of the 30 consecutive trading days ending the day before the Company sends the notice of mandatory conversion. Given these factors, if the Company elects to mandatorily convert any preferred stock, it will make a payment on the preferred stock equal to the aggregate amount of dividends that would have accrued and become payable through and including June 15, 2012, less any dividends already paid on preferred stock (see Note 5 to the Consolidated Condensed Financial Statements —"Preferred Stock Offering" in this Form 10-Q). The amounts included in the table above represent the Company's total commitment to pay preferred dividends through June 15, 2012 should it opt to mandatorily convert any preferred stock. However, if the preferred stock were to remain outstanding subsequent to June 15, 2012, the Company would be required to continue to pay dividends subject to the terms and conditions of the preferred stock. These additional dividends are not reflected in this table.

(3) The Company leases certain warehouse, distribution and office facilities, vehicles and office equipment under operating leases. The amounts presented in this line item represent commitments for minimum lease payments under non-cancelable operating leases.

(4) Amount represents total uncertain income tax positions. For further discussion see Note 3 "Income Taxes" to the Consolidated Condensed Financial Statements in this Form 10-Q.

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company's customers and licensees in connection with the use, sale

and/or license of Company products or trademarks, (ii) indemnities to various lessors in connection with facility leases for certain claims arising from such facilities or leases, (iii) indemnities to vendors and service providers pertaining to the goods or services provided to the Company or based on the negligence or willful misconduct of the Company and (iv) indemnities involving the accuracy of representations and warranties in certain contracts.

In addition, the Company has made contractual commitments to each of its officers and certain other employees providing for severance payments, including salary continuation, upon the termination of employment by the Company for convenience or by the officer for substantial cause. In addition, in order to assure that the officers would continue to provide independent leadership consistent with the Company’s best interest, the contracts also generally provide for certain protections in the event of an actual or threatened change in control of the Company. These protections include the payment of certain severance benefits, such as salary continuation, upon the termination of employment following a change in control.

The Company also has consulting agreements that provide for payment of nominal fees upon the issuance of patents and/or the commercialization of research results. The Company has also issued guarantees in the form of a standby letter of credit as security for contingent liabilities under certain workers’ compensation insurance policies. The duration of these indemnities, commitments and guarantees varies, and in certain cases may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum amount of future payments the Company could be obligated to make. Historically, costs incurred to settle claims related to indemnities have not been material to the Company’s financial position, results of operations or cash flows. In addition, the Company believes the likelihood is remote that payments under the commitments and guarantees described above will have a material effect on the Company’s financial condition. The fair value of indemnities, commitments and guarantees that the Company issued during the three months ended March 31, 2012 was not material to the Company’s financial position, results of operations or cash flows.

In addition to the contractual obligations listed above, the Company’s liquidity could also be adversely affected by an unfavorable outcome with respect to claims and litigation that the Company is subject to from time to time. See Note 13 “Commitments and Contingencies” to the Notes to Consolidated Condensed Financial Statements and “Legal Proceedings” in Item 1 of Part II in this Form 10-Q.

Sufficiency of Liquidity

Based upon its current operating plan, analysis of its consolidated financial position and projected future results of operations, the Company believes that its operating cash flows, together with its current or future financing facilities, will be sufficient to finance current operating requirements, required capital expenditures, contractual obligations and commercial commitments, for at least the next 12 months. There can be no assurance, however, that future industry-specific or other developments (including noncompliance with the financial covenants under its ABL Facility), general economic trends, foreign currency exchange rates, or other matters will not adversely affect the Company’s operations or its ability to meet its future cash requirements (see above, “Sources of Liquidity”.)

As of March 31, 2012, a significant portion of the Company’s total cash and short-term investments is held outside of the U.S. In addition to settling intercompany balances during the normal course of operations, the Company may repatriate funds from its foreign subsidiaries. The Company has not, nor does it anticipate the need to, repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with its domestic debt service requirements. As such, the Company considers the undistributed earnings of its foreign subsidiaries to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. If in the future the Company decides to repatriate such foreign earnings, it would need to accrue and pay incremental U.S. federal and state income tax, reduced by the current amount of available U.S. federal and state net operating loss and tax credit carryforwards.

Table of Contents

Capital Resources

The Company does not currently have any material commitments for capital expenditures. The Company expects to have capital expenditures of approximately $25.0 million to $30.0 million for the year ending December 31, 2012.

Off-Balance Sheet Arrangements

At March 31, 2012, the Company had total outstanding commitments on non-cancelable operating leases of approximately $34.3 million related to certain warehouse, distribution and office facilities, vehicles as well as office equipment. Lease terms range from 1 to 6 years expiring at various dates through February 2018, with options to renew at varying terms.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our Form 10-K for the fiscal year ended December 31, 2011.

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

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

Foreign Currency Fluctuations

In the normal course of business, the Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to transactions of its international subsidiaries, including certain balance sheet exposures (payables and receivables denominated in foreign currencies) (see Note 16 "Derivatives and Hedging" to the Notes to Consolidated Condensed Financial Statements). In addition, the Company is exposed to gains and losses resulting from the translation of the operating results of the Company's international subsidiaries into U.S. dollars for financial reporting purposes. As part of its strategy to manage the level of exposure to the risk of fluctuations in foreign currency exchange rates, the Company uses derivative financial instruments in the form of foreign currency forward contracts and put and call option contracts ("foreign currency exchange contracts") to hedge transactions that are denominated primarily in British Pounds, Euros, Japanese Yen, Canadian Dollars, Australian Dollars and Korean Won. For most currencies, the Company is a net receiver of foreign currencies and, therefore, benefits from a weaker U.S. dollar and is adversely affected by a stronger U.S. dollar relative to those foreign currencies in which the Company transacts significant amounts of business.

Foreign currency exchange contracts are used only to meet the Company's objectives of offsetting gains and losses from foreign currency exchange exposures with gains and losses from the contracts used to hedge them in order to reduce volatility of earnings. The extent to which the Company's hedging activities mitigate the effects of changes in foreign currency exchange rates varies based upon many factors, including the amount of transactions being hedged. The Company generally only hedges a limited portion of its international transactions. The Company does not enter into foreign currency exchange contracts for speculative purposes. Foreign currency exchange contracts generally mature within twelve months from their inception.

The Company does not designate foreign currency exchange contracts as derivatives that qualify for hedge accounting under ASC 815, "Derivatives and Hedging." As such, changes in the fair value of the contracts are recognized in earnings in the period of change. At March 31, 2012 and December 31, 2011, the notional amounts

of the Company's foreign currency exchange contracts used to hedge the exposures discussed above were approximately $197.3 million and $165.5 million, respectively. At March 31, 2012 and December 31, 2011, there were no outstanding foreign exchange contracts designated as cash flow hedges for anticipated sales denominated in foreign currencies.

As part of the Company's risk management procedure, a sensitivity analysis model is used to measure the potential loss in future earnings of market-sensitive instruments resulting from one or more selected hypothetical changes in interest rates or foreign currency values. The sensitivity analysis model quantifies the estimated potential effect of unfavorable movements of 10% in foreign currencies to which the Company was exposed at March 31, 2012 through its foreign currency exchange contracts.

The estimated maximum one-day loss from the Company's foreign currency exchange contracts, calculated using the sensitivity analysis model described above, is $21.3 million at March 31, 2012. The Company believes that such a hypothetical loss from its foreign currency exchange contracts would be partially offset by increases in the value of the underlying transactions being hedged.

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

Interest Rate Fluctuations

The Company is exposed to interest rate risk from its ABL Facility. Outstanding borrowings under the ABL Facility accrue interest as described in Note 12 to the Company's Consolidated Condensed Financial Statements in this Form 10-Q and in "Sources of Liquidity" above. As part of the Company's risk management procedures, a sensitivity analysis was performed to determine the impact of unfavorable changes in interest rates on the Company's cash flows. The sensitivity analysis quantified that the incremental expense incurred by an increase of 10% in interest rates would be nominal over a three month period.

Item 4. ***Controls and Procedures***

Disclosure Controls and Procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness, as of March 31, 2012, of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting. During the quarter ended March 31, 2012, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

The information set forth in Note 13 “Commitments and Contingencies,” to the Consolidated Condensed Financial Statements included in Part I, Item 1, of this Quarterly Report, is incorporated herein by this reference.

Item 1A. *Risk Factors*

Certain Factors Affecting Callaway Golf Company

The Company has included in Part I, Item 1A of its Annual Report on Form 10-K for the year ended December 31, 2011, a description of certain risks and uncertainties that could affect the Company’s business, future performance or financial condition (the “Risk Factors”). There are no material changes from the disclosure provided in the Form 10-K for the year ended December 31, 2011 with respect to the Risk Factors. Investors should consider the Risk Factors prior to making an investment decision with respect to the Company’s stock.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

Stock Purchases:

In November 2007, the Board of Directors authorized a repurchase program (the “November 2007 repurchase program”) for the Company to repurchase shares of its common stock up to a maximum cost to the Company of $100.0 million, which will remain in effect until completed or otherwise terminated by the Board of Directors.

During the three months ended March 31, 2012, the Company repurchased 91,000 shares of its common stock at an average cost per share of $6.62 under the November 2007 repurchase program. The Company received these shares to settle taxes paid on behalf of holders of restricted stock units. As of March 31, 2012, the Company remained authorized to repurchase up to an additional $73.0 million of its common stock under this program.

The following table summarizes the purchases by the Company under its repurchase programs during the first quarter of 2012 (in thousands, except per share data):

	Three Months Ended March 31, 2012			
	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value that May Yet Be Purchased Under the Programs
January 1, 2012—January 31, 2012	90	$ 6.62	90	$ 72,978
February 1, 2012—February 29, 2012	—	$ —	—	$ 72,978
March 1, 2012—March 31, 2012	1	$ 6.43	1	$ 72,975
Total	91	$ 6.62	91	$ 72,975

Item 3. *Defaults upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

None

Table of Contents

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

2.1	Asset Purchase Agreement among American Sports Licensing, Inc. and Dick’s Sporting Goods, Inc., collectively the buyer, and Callaway Golf Company as the seller dated as of March 30, 2012. (†)
3.1	Certificate of Incorporation, incorporated herein by this reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K, as filed with the Commission on July 1, 1999 (file no. 1-10962).
3.2	Fifth Amended and Restated Bylaws, as amended and restated as of November 18, 2008, incorporated herein by this reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K, as filed with the Commission on November 21, 2008 (file no. 1-10962).
3.3	Amended and Restated Certificate of Designation for 7.50% Series B Cumulative Perpetual Convertible Preferred Stock, incorporated herein by this reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K, as filed with the Commission on March 5, 2010 (file no. 1-10962).
4.1	Form of Specimen Stock Certificate for Common Stock, incorporated herein by this reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K, as filed with the Commission on September 15, 2009 (file no. 1-10962).
4.2	Form of Specimen Stock Certificate for 7.50% Series B Cumulative Perpetual Convertible Preferred Stock, incorporated herein by this reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K, as filed with the Commission on September 15, 2009 (file no. 1-10962).
10.1	Officer Employment Agreement, effective as of February 24, 2012, by and between the Company and Oliver G. Brewer, III, incorporated herein by this reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K, as filed with the Commission on March 1, 2012 (file no. 1-10962).
10.2	Annual Incentive Plan Guidelines, incorporated herein by this reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K, as filed with the Commission on March 28, 2012 (file no. 1-10962).
31.1	Certification of Oliver G. Brewer, III pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.†
31.2	Certification of Bradley J. Holiday pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.†
32.1	Certification of Oliver G. Brewer, III and Bradley J. Holiday pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†
101.1	XBRL Instance Document*
101.2	XBRL Taxonomy Extension Schema Document*
101.3	XBRL Taxonomy Extension Calculation Linkbase Document*
101.4	XBRL Taxonomy Extension Definition Linkbase Document*
101.5	XBRL Taxonomy Extension Label Linkbase Document*
101.6	XBRL Taxonomy Extension Presentation Linkbase Document*

(†) Included with this Report.

* The XBRL information is being furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any registration statement under the Securities Act of 1933, as amended.

Table of Contents

SIGNATURES

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

CALLAWAY GOLF COMPANY

By: /S/ MARLO M. CORMIER PLATZ

Marlo M. Cormier Platz
Vice President and
Chief Accounting Officer

Date: April 27, 2012

EXHIBIT INDEX

Exhibit	Description
2.1	Asset Purchase Agreement among American Sports Licensing, Inc. and Dick’s Sporting Goods, Inc., collectively the buyer, and Callaway Golf Company as the seller dated as of March 30, 2012.
31.1	Certification of Oliver G. Brewer, III pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Bradley J. Holiday pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Oliver G. Brewer, III and Bradley J. Holiday pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	XBRL Instance Document*
101.2	XBRL Taxonomy Extension Schema Document*
101.3	XBRL Taxonomy Extension Calculation Linkbase Document*
101.4	XBRL Taxonomy Extension Definition Linkbase Document*
101.5	XBRL Taxonomy Extension Label Linkbase Document*
101.6	XBRL Taxonomy Extension Presentation Linkbase Document*

* The XBRL information is being furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any registration statement under the Securities Act of 1933, as amended.

Exhibit 2.1

Execution Version

ASSET PURCHASE AGREEMENT

AMONG

AMERICAN SPORTS LICENSING, INC. and DICK’S SPORTING GOODS, INC.
collectively as the Buyer

AND

CALLAWAY GOLF COMPANY
as the Seller

March 30, 2012

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (this "Agreement") is entered into as of March 30, 2012, by and between **AMERICAN SPORTS LICENSING, INC.**, a Delaware corporation ("ASLI") and **DICK'S SPORTING GOODS, INC.**, a Delaware corporation ("Dick's" and collectively with ASLI, the "Buyer"), and **CALLAWAY GOLF COMPANY**, a Delaware corporation and its subsidiaries (the "Seller"). The Buyer and the Seller are sometimes referred to collectively herein as the "Parties" and individually herein as a "Party."

NOW, THEREFORE, in consideration of the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Parties agree as follows.

1. Definitions.

"2009 Inventory" has the meaning set forth in Section 10(b).

"2010/2011/2012 Inventory" has the meaning set forth in Section 10(a).

"Acquired Assets" has the meaning set forth in Section 2(a).

"Acquired Contracts" means all of the Seller's rights, title and interest in and to, collectively, the license agreements, other instruments or other agreements listed on Schedule 1.

"Acquired Patents" has the meaning set forth on Schedule 7.

"Action" means any inquiry, claim, action, suit, arbitration, investigation, opposition, challenge, cancellation or proceeding by or before any Governmental Authority.

"Actual Knowledge" with respect to the Seller, means the facts and circumstances that are known by the corporate officers and Top-Flite Brand managers set forth on Schedule 5, after reasonable internal inquiry and investigation, to include consultation with the Seller's legal department.

"Affiliate" means, with respect to any Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the Person specified. The term "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management, policies and affairs of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Allocation Schedule" means the allocation schedule prepared by the Parties pursuant to which the Purchase Price shall be allocated among the Acquired Assets for all purposes (including financial accounting and tax purposes) on Schedule 2.

"Ancillary Agreements" means, collectively, the Trademark Assignments, Patent Assignments, Domain Name Assignments and the Bill of Sale.

"Assets" means, with respect to any Person, all right, title and interest of such Person in land, properties, buildings, improvements, fixtures, assets and rights of any kind, whether tangible or intangible, real, personal or mixed, including contracts, equipment, systems, books and records, proprietary rights, Intellectual Property, permits and licenses, rights under or pursuant to all warranties, representations and guarantees, cash, accounts receivable, deposits and prepaid expenses.

"Assumed Liabilities" means (a) only those Liabilities accruing, arising out of or relating to the ownership or use of the Acquired Assets from and after the Closing and (b) only those obligations of the Seller arising after the Closing under any agreements, contracts, licenses, and other arrangements that the Buyer expressly elects to assume.

"Basket Amount" has the meaning set forth in Section 8(e)(i)(B).

"Bill of Sale" means the Bill of Sale entered into concurrently herewith and attached as Exhibit A.

"Business" means the business conducted by the Seller in connection with the Top-Flite Brand including, but not limited to, the business of designing, manufacturing, sourcing, importing, wholesaling, retailing, licensing, marketing, promoting, managing, selling and distributing Top-Flite Brand golf balls, golf clubs, golf products, apparel, accessories and related goods and services.

"Business Day" means any day that is not a Saturday, Sunday, or other day on which national banking institutions in New York, New York are closed as authorized or required by Law.

"Business Intellectual Property" means all of the Seller's right, title and interest in and to (a) the Core IP, (b) the Non-Core IP, (c) the Acquired Patents and (d) the Intellectual Property, other than Patents or any rights related thereto, exclusively used by the Seller in connection with the Business, including, without limitation, all the Intellectual Property listed on Schedule 1.

"Buyer" has the meaning set forth in the preface above.

"Buyer Indemnified Parties" has the meaning set forth in Section 8(b).

"Cap Amount" has the meaning set forth in Section 8(e)(i)(A).

"Closing" has the meaning set forth in Section 7(a).

"Code" means the Internal Revenue Code of 1986, as amended.

"Contracts" has the meaning set forth in Section 3(h).

"Copyrights" means all published and unpublished works of authorship, whether copyrightable or not (including, without limitation, data bases and other compilations of information), copyrights therein and thereto, and applications, registrations, and renewals in connection therewith, including but not limited to the content of all web pages, promotional, advertising and marketing materials.

"Core IP" means the Business Intellectual Property listed on Schedule 3.

"Coexistence and Product Placement Agreements" means each of the items set forth under the heading Coexistence Agreements and items 1 through 6 set forth under the heading Miscellaneous on Section 3(h) of the Disclosure Schedule.

"Disclosure Schedule" has the meaning set forth in Section 3.

"Domain Name" means domain names, URL's, and resource locators.

"Domain Name Assignments" means the agreement entered into concurrently herewith and attached as Exhibit B.

"Excluded Assets" means all Assets of the Seller other than the Acquired Assets, including the Top-Flite Inventory and those assets set forth on Schedule 4.

"Excluded Liabilities" has the meaning set forth in Section 2(d).

"Governmental Authority" means any United States or non-United States national, federal, state or local government, regulatory or administrative authority, agency or commission or any judicial or arbitral body.

"Indemnified Party" has the meaning set forth in Section 8(d)(i).

"Indemnifying Party" has the meaning set forth in Section 8(d)(i).

"Intellectual Property" means all intellectual property, in any jurisdiction worldwide, whether registered and unregistered, including, without limitation: (a) all Patents, (b) all Marks, (c) all Copyrights, (d) all mask works and all applications, registrations, and renewals in connection therewith, (e) all trade secrets and confidential business information (including, without limitation, ideas, research and development, know-how, formulas, compositions, manufacturing and production processes and techniques, technical data, designs, drawings, specifications, schematics, business methods, prototypes, samples, models, customer and supplier lists, pricing and cost information, historical sales information, business and marketing plans and proposals and industry information), (f) all computer and electronic data processing programs and software programs and related documentation, existing research projects, computer software presently under development, and all software concepts owned and all proprietary information, processes, formulae and algorithms, used in the ownership, marketing, development, maintenance, support and delivery of such software, subject to all applicable licenses and rights to use such software, (g) all other proprietary rights, (h) all copies and tangible embodiments thereof (in whatever form or medium), (i) all phone numbers, toll free phone numbers, Domain Names, and social media websites and identities, together with the login information and passwords (including those necessary to access any marketing, advertising or promotional material posted on Facebook, Linked In, Twitter or other third-party websites), (j) the right to sue for and recover damages, assert, settle and/or release any claims or demands and obtain all other remedies and relief at Law or equity for any past, present or future infringement or misappropriation of any of the Intellectual Property, (k) all licenses, options to license and other contractual rights to use the Intellectual Property, and (l) all UPC Codes.

"Knowledge" with respect to the Seller, means the facts and circumstances that are known by the corporate officers and Top-Flite Brand managers set forth on Schedule 5, after reasonable inquiry and investigation.

"Law" means any statute, law, ordinance, regulation, rule, code, injunction, judgment, decree or order of any Governmental Authority.

"Liability" means any liability (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due), including any liability for Taxes.

"License Agreement" has the meaning set forth in Section 5(a).

"Losses" has the meaning set forth in Section 8(b).

"Marks" means all trademarks, service marks, trade dress, logos, slogans, trade names, designs, artwork, symbols, certification marks, collective marks, business symbols, brand names, d/b/a's and corporate names and other indicia of origin, together with all translations, adaptations, derivations, and combinations thereof and including all goodwill of the business associated therewith and symbolized thereby, and all applications, registrations, and renewals in connection therewith.

"Molds" has the meaning set forth in Section 2(a)(vii).

"Non-Core IP" means the Business Intellectual Property listed on Schedule 1, and identified as Non-Core IP.

"Parties" has the meaning set forth in the preface above.

"Patent Assignments" means the agreements entered into concurrently herewith and attached as Exhibit C-1 and Exhibit C-2.

"Patents" means all inventions (whether patentable or unpatentable and whether or not reduced to practice), all improvements thereto, and all patents, patent applications, and disclosures thereof, together with all provisional, utilities, reissuances, continuations, continuations-in-part, conversions, counterparts, revisions, extensions, and reexaminations thereof.

"Person" means an individual, a partnership, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or a Governmental Authority (or any department, agency, or political subdivision thereof).

"Potential Contributor" has the meaning set forth in Section 8(f).

"Purchase Price" has the meaning set forth in Section 2(e).

"Range Balls" has the meaning set forth in Section 9(b).

"Retained Inventory" has the meaning set forth in Section 9(a).

"Security Interest" means any mortgage, pledge, option, preemptive right, right of first refusal or first offer, proxy, levy, voting trusts or agreements, lien, encumbrance, charge, or other security interest (including, without limitation, any encumbrances arising from any Liability for Taxes).

"Seller" has the meaning set forth in the preface above.

"Seller Indemnified Parties" has the meaning set forth in Section 8(c).

"Tax" and "Taxes" means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

"Third Party Claim" has the meaning set forth in Section 8(d)(i).

"Top-Flite Brand" means the registered and unregistered trademarks and service marks incorporating the term "Top-Flite" alone or in combination with other terms including but not limited to: Top-Flite, D2, Gamer, Freak, Dimple in Dimple, Top-Flite XL, and Top-Flite XL Aero.

"Top-Flite Documentation" has the meaning set forth in Section 2(a)(iii).

"Top-Flite Inventory" means the finished goods inventory owned by the Seller on the date of this Agreement listed on Schedule 6.

"Trademark Assignments" means the agreements entered into concurrently herewith and attached as Exhibit D-1 and Exhibit D-2.

"Transfer Taxes" has the meaning set forth in Section 2(g).

"Transition Period" has the meaning set forth in Section 9(a).

"UPC Code" means any Universal Product Code, including, without limitation, any International Article Numbers.

2. Basic Transaction.

(a) Purchase and Sale of Assets. Upon the Closing and subject to the terms and conditions of this Agreement, ASLI and Dick's, as applicable, hereby purchase from the Seller, and the Seller hereby sells, transfers, conveys, and delivers to ASLI and Dick's, as applicable, free and clear of any Security Interest except for the Coexistence and Product Placement Agreements, for the consideration specified below in this Section 2, (with the exception of the items listed in Section 2(a)(ix) which will be purchased at a later time by Dick's) all of the following assets, properties and rights of the Seller that are now, or at the time of the Closing will be, used or held for use in or otherwise related to, the Business, including, without limitation, all of the Seller's right, title and interest in and to the Assets set forth on Schedule 1, excluding the Excluded Assets set forth on Schedule 4 (collectively, the "Acquired Assets"). The Acquired Assets shall include:

(i) all Business Intellectual Property;

(ii) the Acquired Contracts;

(iii) all files, documents, instruments, papers, books and records (whether in paper, digital or other tangible or intangible form) that are as of the date of this Agreement exclusively used in the Business, including, without limitation, copies of financial records, copies of Tax records (other than income Tax records), technical information, operating and production records, quality control records, blueprints, research and development notebooks and files, customer credit data, manuals, engineering and scientific data, sales and promotional literature, drawings, technical plans, business plans, budgets, price lists, lists of customers and suppliers and human resources data (the "Top-Flite Documentation");

(iv) all rights, claims and causes of action that are as of the date of this Agreement exclusively related to the Acquired Assets;

(v) all the right, title, benefit and interest of the Seller in respect to prepaid insurance, prepaid royalties and advertising/marketing fees and other prepaid expenses, deposits and all advances to suppliers and other deposits of cash and cash equivalents made by the Seller with respect to the Acquired Assets;

(vi) all current and past patterns, samples, prototypes, archived files, artwork, development and design work, graphics and designs for packaging and products to the extent the same are exclusively used in the operation of the Business;

(vii) all mold bases and cavities relating to all of Top-Flite, D2, Gamer, Freak, Dimple in Dimple and Top-Flite XL golf balls identified on Schedule 1 (the "Molds"), which shall be purchased by Dick's;

(viii) all website content and software exclusively used in the Business (such as that appearing in connection with www.topflite.com) and collateral and marketing and promotional materials, including point-of-sale materials and displays relating to the Top-Flite Brand;

(ix) the right to purchase certain Top-Flite Inventory relating to the Top-Flite Brand after the Transition Period as described in Section 10;

(x) all goodwill associated with the Acquired Assets; and

(xi) all other material tangible and intangible assets of any kind and description, wherever located, that are owned and exclusively used by the Seller in connection with the operation of the Business, other than the Excluded Assets and to the extent the same are transferable.

(b) Excluded Assets. Notwithstanding anything contained in Section 2(a) to the contrary, the Seller is not selling, and the Buyer is not purchasing, any of the Excluded Assets, all of which shall be retained by the Seller.

(c) Assumption of Liabilities. Upon the Closing and subject to the terms and conditions of this Agreement, the Buyer hereby assumes and becomes responsible for all of the Assumed Liabilities. The Seller acknowledges that the Buyer has not assumed or has any responsibility for any other obligation or Liability of the Seller.

(d) Excluded Liabilities. Notwithstanding anything else contained herein to the contrary, the Buyer shall not assume and shall have no obligation to pay, satisfy, perform, discharge or fulfill any liabilities or obligations of the Seller (whether known or unknown, liquidated or unliquidated, contingent or fixed) other than the Assumed Liabilities (collectively, the "Excluded Liabilities"). The Excluded Liabilities shall remain the liabilities and obligations of the Seller and shall not be assumed by the Buyer pursuant hereto (regardless of whether any such liabilities or obligations are disclosed in this Agreement). Without limiting the generality of the foregoing, the Excluded Liabilities shall include the following:

(i) all Liabilities related to the Excluded Assets;

(ii) all Liabilities for any of the Seller's income or capital taxes owed by the Seller, and any liability or obligation for any sales, use, excise, or other taxes (including, without limitation, income Taxes, withholding Taxes and employment and payroll taxes, but excluding Transfer Taxes) arising prior to or in connection with the consummation of the transactions contemplated by this Agreement;

(iii) except as otherwise expressly provided for herein, all Liabilities of the Seller for costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby;

(iv) all Liabilities in respect of any and all litigations, Actions, suits, mediations, arbitrations, disputes, oppositions or other proceedings or governmental investigations with respect to or involving the Acquired Assets on or before the Closing;

(v) all Liabilities related to the Acquired Assets occurring prior to the Closing;

(vi) all Liabilities for all contracts, distribution agreements and licenses relating to the Top-Flite Brand to which the Seller is a party other than the Acquired Contracts;

(vii) all Liabilities of the Seller to any of the Seller's distributors, licensees or customers other than the Assumed Liabilities;

(viii) all Liabilities related to the transition, termination or amendment of any distributor agreements as provided for herein;

(ix) all Liabilities for any and all sales of Top-Flite Inventory by the Seller, its distributors or licensees;

(x) all Liabilities for any and all sales of Retained Inventory by the Seller, its distributors or licensees;

(xi) all Liabilities related to the Seller's use or alleged use, prior to the date of this Agreement, of the U.S. Copyright for FOREVER ALONE, Registration Number VA 1-793-544;

(xii) all Liabilities related to the license to the Seller as described in Section 5(a) hereto; and

(xiii) all Liabilities relating to any other agreement, contract, plan, undertaking, franchise concession, license, purchase order, sales order or other similar commitment, obligation, arrangement or understanding, whether written or oral that is not (A) an Acquired Assets, or (B) an Assumed Liability.

(e) Purchase Price. The Buyer hereby delivers the aggregate purchase price for the Acquired Assets of Twenty Million Dollars ($20,000,000.00) (the "Purchase Price") in cash by wire transfer of immediately available funds to the account designated in writing by the Seller.

(f) Allocation. The Purchase Price shall be allocated among the Acquired Assets for all purposes (including financial accounting and tax purposes) pursuant to the allocation schedule set forth as Schedule 2.

(g) Transfer Taxes. The Buyer shall bear and be responsible for one hundred percent (100%) of the amount of any sales, use, transfer, documentary, recording and similar taxes and fees, and any deficiency, interest or penalty asserted with respect thereto (the "Transfer Taxes") arising out of the sale or transfer of the Acquired Assets pursuant to this Agreement, and the Parties shall cooperate as to the filing of all necessary documentation with respect to such Transfer Taxes. In no case shall the Buyer be responsible for any income or capital gains Tax arising out of the sale or transfer of the Acquired Assets or any Tax due or otherwise payable in connection with the Acquired Assets prior to the Closing.

3. Representations and Warranties of the Seller. The Seller represents and warrants to the Buyer that the statements contained in this Section 3 are correct and complete as of the Closing, except as set forth in the disclosure schedule accompanying this Agreement (the "Disclosure Schedule"). The Disclosure Schedule will be arranged in paragraphs corresponding to the lettered and numbered paragraphs contained in this Section 3.

(a) Organization of the Seller. The Seller is a corporation duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation.

(b) Authorization of Transaction. The Seller has full power and authority (including full corporate power and authority) to execute and deliver this Agreement and each Ancillary Agreement and to perform its obligations hereunder and thereunder. Without limiting the generality of the foregoing, the board of directors of the Seller has duly authorized the execution, delivery, and performance of this Agreement and the Ancillary Agreements by the Seller. This Agreement constitutes the valid and legally binding obligation of the Seller, enforceable in accordance with its terms and conditions, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally and by general principles of equity (regardless of whether considered in a proceeding in equity or at law).

(c) Noncontravention. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments and assumptions referred to in Section 2 above), will (i) violate the certificate of incorporation or bylaws (or equivalent organizational documents) of the Seller; (ii) violate any Law applicable to the Seller or any of the Acquired Assets, or by which the Seller or any of the Acquired Assets may be bound or affected; or (iii) result in any material breach of, constitute a default (or an event that, with notice or lapse of time or both, would become a default) under, or give to others any rights of termination, acceleration or cancellation of, any Acquired Contracts.

(d) Consents. The Seller is not required to file, seek or obtain any notice, authorization, approval, order, permit or consent of or with any Governmental Authority in connection with the execution, delivery and performance by the Seller of this Agreement and each of the Ancillary Agreements to which the Seller is a party or the consummation of the transactions contemplated hereby or thereby or in order to prevent the termination of any right, privilege, license or qualification relating to the Acquired Assets, except for the consents listed on Section 3(d) of the Disclosure Schedule.

(e) Brokers' Fees. The Seller has no Liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which the Buyer could become liable or obligated.

(f) Title to Assets. Subject to Section 3(g)(xiii), the Seller has good and marketable title to the Acquired Assets, free and clear of all Security Interests and, at the Closing, will convey to the Buyer good, valid and marketable title in or to all of the Acquired Assets, free and clear of all Security Interests.

(g) Intellectual Property.

(i) Section 3(g)(i) of the Disclosure Schedule sets forth a true, complete and accurate list of all registered Marks, material unregistered Marks, Acquired Patents, registered Copyrights and registered Domain Names and pending applications for any of the foregoing, owned by the Seller or licensed by the Seller that have been exclusively used by the Seller in connection with the Business in the past three (3) years.

(ii) The Seller is the sole and exclusive owner of all right, title and interest in and to the Core IP and Acquired Patents, and to the Actual Knowledge of the Seller, the other Business Intellectual Property, free and clear of all Security Interests or other adverse claims or restrictions on, or imperfections of, title or transfer of any nature whatsoever except for the Coexistence and Product Placement Agreements. Upon the Closing, the Buyer shall receive all of the Seller's rights, title and interests in and to the Core IP and Acquired Patents, and to the Actual Knowledge of the Seller, the other Business Intellectual Property, free and clear of all Security Interests or adverse claims or restrictions on, or imperfections of, title or transfer of any nature whatsoever except for the Coexistence and Product Placement Agreements.

(iii) Section 3(g)(iii) of the Disclosure Schedule sets forth a list of all licenses, sublicenses and other agreements to which the Seller is a party, pursuant to which the Seller authorized any third party (other than the Buyer) to use the Business Intellectual Property.

(iv) No registered Mark, or application thereto, that is included in the Core IP, or to the Actual Knowledge of the Seller, the other Business Intellectual Property, has been, in the past three (3) years, or is now involved in any opposition or cancellation proceeding and, to the Actual Knowledge of the Seller, no such proceeding is or has been threatened with respect to any such Mark.

(v) The Core IP, and to the Actual Knowledge of the Seller, the other Business Intellectual Property, is valid and enforceable, and the Seller has not received written notice or claim in the past three (3) years challenging the validity or enforceability of any Core IP and Acquired Patents, or to the Actual Knowledge of the Seller, the other Business Intellectual Property.

(vi) There are no royalty, commission or other executory payment agreements, relating to any other Business Intellectual Property.

(vii) None of the Seller's current or former officers, employees or consultants currently claim or have claimed any ownership interest in any Core IP or Acquired Patents, or to the Actual Knowledge of the Seller, the other Business Intellectual Property.

(viii) (A) none of the Core IP or Acquired Patents, and to the Actual Knowledge of the Seller the other Business Intellectual Property, infringes upon or misappropriates the rights of any other Person nor, to the Actual Knowledge of the Seller, has been infringed upon or misappropriated by any other Person or its property; (B) in the past three (3) years, the Seller has not received any claim, offer of license, cease and desist or equivalent letter or other written notice of any allegation that any of the Core IP or Acquired Patents, or to the Actual Knowledge of the Seller, the other Business Intellectual Property infringes upon, misappropriates or otherwise violates the Intellectual

Property of any third parties and, to Actual Knowledge of the Seller, none is threatened; (C) to the Actual Knowledge of the Seller, there has been no unauthorized use by, disclosure to or by or infringement, misappropriation or other violation of any of the Business Intellectual Property by any third party and/or any current or former licensee, distributor, independent contractor, consultant or any other agent of the Seller; (D) none of the Core IP or Acquired Patents, or to the Actual Knowledge of the Seller, the other Business Intellectual Property, is subject to any suits, actions, asserted claims or demands of any third party and, to the Seller's Actual Knowledge, no action or proceeding, whether judicial, administrative or otherwise, has been instituted, is pending, or is threatened that challenges or affects the rights of the Seller in and to the Business Intellectual Property; and (E) in the past three (3) years, the Seller has not received any written opinions of counsel (outside or inside) relating to infringement, invalidity or unenforceability of any of the Core IP or Acquired Patents, or to the Actual Knowledge of the Seller, the other Business Intellectual Property.

(ix) All registrations with and applications to Governmental Authorities in respect of the Core IP, Acquired Patents and to the Actual Knowledge of the Seller, the other Business Intellectual Property, were properly filed, applied for, valid, registered and/or maintained in good standing and enforceable and in full force and effect in all material respects. To the Actual Knowledge of the Seller, the Seller is in material compliance with all applicable Laws regarding the manufacture, advertising, sale, import, and export of the Business Intellectual Property, and to the Knowledge of the Seller, the Seller is not in default (or with the giving of notice or lapse of time or both, would be in default) in any material respect under any of the Core IP, Acquired Patents or, to the Actual Knowledge of the Seller, the other Business Intellectual Property.

(x) Upon the Closing, the Buyer shall have acquired all of the Seller's rights with respect to all of the Core IP and Acquired Patents, and to the Actual Knowledge of the Seller, the other Business Intellectual Property to: (A) sue for (and otherwise assert claims for) and recover damages and obtain any and all other remedies available at Law or in equity for any past, present or future infringement, misappropriation or other violation of any of such Intellectual Property (and to settle all such suits, actions and proceedings); (B) seek protection therefor (including, without limitation, the right to seek and obtain copyright, trademark and service mark registrations and letters patent in the United States and all other countries and governmental divisions); and (C) claim all rights and priority thereunder.

(xi) No renewal, fee payment, filing of an affidavit of continuing use, or any other action is or will be required to be taken with respect to any issued registration, application for registration included in the Core IP or Acquired Patents, and to the Actual Knowledge of the Seller, the other Business Intellectual Property, within ninety (90) days of the Closing in order to maintain, renew and not abandon or impair its validity and enforceability.

(xii) The execution and delivery of this Agreement, the consummation of the transactions contemplated by this Agreement and the compliance by the Seller with the provisions of this Agreement do not and will not materially conflict with, or result in any material loss or encumbrance of any Core IP or Acquired Patents, and to the Actual Knowledge of the Seller, the other Business Intellectual Property, or benefit related thereto, or result in the creation of any lien in or upon any Core IP or Acquired Patents, and to the Actual Knowledge of the Seller, the other Business Intellectual Property.

(xiii) The representations set forth in this Section 3(g) are the only representations by the Seller relating to Intellectual Property.

(h) Contracts. Section 3(h) of the Disclosure Schedule lists all contracts and other agreements to which the Seller is a party and which are related to the Acquired Assets (such contracts and other agreements described in this Section 3(h) being the "Contracts").

(i) Litigation. There is no Action by or against the Seller with respect to any of the Acquired Assets pending, or to the Actual Knowledge of the Seller, threatened against or affecting any of the Acquired Assets. To the Actual Knowledge of the Seller, there are no outstanding orders, writs, judgments, decrees, injunctions or settlements rendered against the Business or the Seller that could affect the Buyer's use and enjoyment of the Acquired Assets, except for the Coexistence and Product Placement Agreements listed in Section 3(h) of the Disclosure Schedule.

(j) Current Product. The products listed on Schedule 8 comprise a complete and accurate list of all golf ball and golf club products using Core IP and Non-Core IP that the Seller, as of the Closing, manufactures, has manufactured by third parties, imports, distributes, markets, promotes, offers to sell and sells.

(k) Absence of Certain Business Practices. The Seller has not given or agreed to give any gift or similar benefit to any customer, supplier, employee of any Governmental Authority or any other Person that could reasonably be expected to subject the Acquired Assets to any material penalty in any civil, criminal or governmental litigation or proceeding including the Foreign Corrupt Practices Act of 1977, as amended.

(l) Exclusivity of Representations and Warranties. The Seller is not making any representation or warranty of any kind or nature whatsoever, oral or written, express or implied, including any maintenance, repair, condition, design, performance, value, merchantability or fitness for any particular purpose of the Acquired Assets, except as expressly set forth in this Section 3 and the Disclosure Schedule, and the Seller hereby disclaims any such other representations and warranties.

4. Representations and Warranties of the Buyer. ALSI and Dick's represent and warrant to the Seller that the statements contained in this Section 4 are correct and complete as of the date of this Agreement.

(a) Organization of the Buyer. ASLI and Dick's are each a company duly organized, validly existing, and in good standing under the Laws of the jurisdiction of their incorporation.

(b) Authorization of Transaction. ASLI and Dick's have full power and authority (including full corporate power and authority) to execute and deliver this Agreement and each Ancillary Agreement and to perform their obligations hereunder and thereunder. This Agreement constitutes the valid and legally binding obligation of ASLI and Dick's, enforceable in accordance with its terms and conditions, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether considered in a proceeding in equity or at law).

(c) Noncontravention. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments and assumptions referred to in Section 2 above), will (i) violate the certificate of incorporation or bylaws (or equivalent organizational documents) of either ASLI or Dick's; (ii) violate any Law applicable to either ASLI or Dick's or by which any Asset of ASLI or Dick's is bound or affected; or (iii) result in any material breach of, constitute a default (or an event that, with notice or lapse of time or both, would become a default) under, require any consent of any Person pursuant to, or give to others any rights of termination, acceleration or cancellation of, any material contract or agreement to which either ASLI or Dick's is a party.

(d) Consents. Neither ASLI nor Dick's is required to file, seek or obtain any notice, authorization, approval, order, permit or consent of or with any Governmental Authority in connection with the execution, delivery and performance by ASLI or Dick's of this Agreement and each of the Ancillary Agreements to which ASLI or Dick's is a party or the consummation of the transactions contemplated hereby or thereby or in order to prevent the termination of any right, privilege, license or qualification of ASLI or Dick's.

(e) Brokers' Fees. Neither ASLI nor Dick's has any Liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which the Seller could become liable or obligated.

5. Licenses and Covenant Not to Sue.

(a) Licenses Retained by the Seller. The Seller will retain all license agreements in which the Seller is the licensor relating to the Top-Flite Brand and upon the Closing the Buyer shall execute a license agreement (the "License Agreement") in the form attached hereto as Exhibit E granting the Seller a sufficient non-exclusive, non-transferable, royalty-free license to permit the Seller (i) to use the Top-Flite Brand solely to permit the Seller to continue said license agreements through December 31, 2012 and any applicable sell-off periods, (ii) to use the Top-Flite Brand solely to service the Seller's existing customers as provided in Section 9 below, (iii) to use the Business Intellectual Property solely in connection with distributing, promoting, importing, offering for sale, selling, using, and otherwise transferring any Top-Flite Inventory not acquired by the Buyer for a period not to exceed twenty-four (24) months post-Closing, and (iv) to display the Top-Flite Brand on packaging and shipping material, stationary, warranty cards, or other printed material that the Seller possesses at Closing, provided that such packaging and shipping material, stationary, warranty cards or other printed material includes the Top-Flite Brand together with other Marks owned by the Seller for a period not to exceed twenty-four (24) months post-Closing. In furtherance of the license described in the foregoing sentence, the Buyer agrees, upon reasonable request by the Seller, to provide the Seller with consent to import Top-Flite Inventory if requested by the customs authorities in the country in question as permitted by the License Agreement.

(b) License to the Buyer. The Seller hereby grants to ASLI and its affiliated entities a non-exclusive, perpetual, sublicenseable, worldwide, transferable, royalty free, paid up license to any and all Intellectual Property, other than Marks and trade secrets, owned or controlled by the Seller as of the Closing or acquired thereafter that relate to the operation of the Business solely to permit the Buyer to continue to manufacture, have manufactured, import, distribute, market, promote, offer to sell and sell, solely under Core IP and Non-Core IP branding, the products listed on Schedule 8.

(c) Covenant Not to Sue. Each Party acknowledges that the other Party utilizes or will utilize trademarks containing the word "aero." The Seller does not desire to prohibit the Buyer (or its sublicensees) from utilizing Marks containing the word "aero" that are used in relation to the current Business and the Seller therefore covenants that it will not bring or allege a claim or challenge of such use. The Buyer does not desire to use Marks included in the Business Intellectual Property to challenge the Seller's use of Marks containing the word "aero" that are not used in connection with the Top-Flight Brand, and the Buyer therefore covenants that it will not bring or allege a claim or challenge of such use, as to the Seller's current use of "aero."

6. Additional Covenants. The Parties agree:

(a) For a period of five (5) years commencing on the Closing, provided the Seller has not divested itself of the "Callaway" brand, the Parties will cooperate on marketing efforts to market the "Callaway" brand on The Golf Channel and/or on other television or online sports programming as agreed by the Parties, and the Buyer commits to spend at least One Million Dollars ($1,000,000) per year on such marketing for such five (5) year period.

(b) The Seller shall terminate or amend all distribution, sales, marketing or similar agreements related to the sale of Top-Flite Brand products or services so that the parties thereto cannot continue to sell Top-Flite Products, within one hundred twenty (120) days following the Closing and, upon written request by the Buyer, provide the Buyer with evidence thereof.

(c) The Seller covenants and agrees that it will not contest the Buyer's full and complete ownership of the Business Intellectual Property, including the rights to use, license the use of and/or transfer the Marks included in the Business Intellectual Property.

(d) Subject to Section 5(c), the Seller covenants to the Buyer and agrees that it will not use or seek to register the Marks included in the Core IP or Non-Core IP, or any mark confusingly similar thereto for any traditional sporting goods product(s) anywhere in the world.

(e) Right of First Refusal and License Payment. Should the Buyer choose to sell all of its rights, title and interests in the Top-Flite Brand within five (5) years of the Closing, the Seller will have a right of first refusal to purchase such Top-Flite Brand for a price and on terms and conditions commensurate with any bona fide third-party offer received by the Buyer to purchase such Top-Flite Brand. Should the Buyer choose to license the Top-Flite Brand to one or more third parties (not including Affiliates of the Buyer) within five (5) years of the Closing, the Buyer will pay to the Seller a percentage of the aggregate revenue less associated expenses generated pursuant to any such license agreements, as follows: (i) with respect to the first year following the Closing, twenty-five percent (25%); (ii) with respect to the second year following the Closing, twenty percent (20%); (iii) with respect to the third year following the Closing, fifteen percent (15%); (iv) with respect to the fourth year following the Closing, ten percent (10%); and (v) with respect to the fifth year following the Closing, five percent (5%).

(f) The Seller covenants that it shall (i) execute and deliver any additional documents and instruments and (ii) perform any additional acts that may be necessary or appropriate to effectuate and transfer title and ownership to Core IP and Non-Core IP to the Buyer.

7. The Closing.

(a) Closing. The closing of the transactions contemplated by this Agreement (the "Closing") is hereby deemed to be effective as of the date hereof at 12:01 a.m. Pacific Time.

(b) Closing Deliveries.

(i) Deliveries to the Buyer. The Seller hereby delivers (or shall have delivered) to the Buyer the following documents:

(A) a counterpart signature page to each Ancillary Agreement, duly executed by the Seller;

(B) copies of each of the consents set forth in Section 3(d) of the Disclosure Schedule, duly executed and in a form reasonably acceptable to the Buyer; and

(C) the License Agreement.

(ii) Deliveries to the Seller. The Buyer hereby delivers (or shall have delivered) to the Seller the following:

(A) the Purchase Price, as provided in Section 2(e);

(B) a counterpart signature page to each Ancillary Agreement, duly executed by the Buyer; and

(C) the License Agreement.

8. Indemnification; Survival.

(a) Survival of Representations and Warranties, Licenses and Covenants. All of the representations and warranties of the Seller and the Buyer contained in Section 3 and Section 4, will survive the Closing hereunder and continue in full force and effect for a period of twenty-four (24) months thereafter, except that the representations and warranties contained in Section 3(a) ("Organization of the Seller"), Section 3(b) ("Authorization of the Transaction"), Section 3(f) ("Title to Assets"), Section 4(a) ("Organization of the Buyer"), and Section 4(b) ("Authorization of the Transaction") shall not expire (subject to any applicable statute of limitations). If a Loss relates to a breach by a party of a representation or warranty, the Loss notice with respect thereto must be given to the Indemnifying Party within twenty-four (24)

months of the date that such representation or warranty ceases to survive, in which case such representation or warranty shall survive as to such claim until such claim has been finally resolved. All other covenants, licenses and agreements of the Seller and the Buyer contained in this Agreement and the Ancillary Agreements shall survive in accordance with their respective terms. The representations and warranties of the Seller shall not be affected or deemed waived by reason of any investigation made by or on behalf of the Buyer or by reason of the fact that the Buyer or any of its representatives knew or should have known that any such representation or warranty is or might be inaccurate or incorrect in any respect. For all purposes of (i) determining whether there has been any misrepresentation of or inaccuracy in the representations and warranties contained in this Agreement and (ii) calculating Losses hereunder, any "material," "materiality," "material adverse effect" or similar qualification in such representations and warranties shall be disregarded.

(b) Indemnification Provisions for Benefit of the Buyer. The Seller shall save, defend, indemnify and hold harmless the Buyer and its members, managers, officers, directors, employees, agents, accountants, counsel or other Affiliates or representatives (the "Buyer Indemnified Parties") from and against any and all losses, damages, liabilities, deficiencies, claims, interest, awards, judgments, penalties, costs and expenses (including reasonable attorneys' fees, costs and other out-of-pocket expenses incurred in investigating, preparing or defending the foregoing) (collectively, "Losses") to the extent arising out of or resulting from:

(i) any inaccuracy in or any breach of, any representation or warranty made by the Seller contained in this Agreement, in any of the Ancillary Agreements, or any certificate delivered pursuant hereto;

(ii) any breach of any covenant or agreement by the Seller contained in this Agreement; and

(iii) any Excluded Liability.

(c) Indemnification Provisions for Benefit of the Seller. The Buyer shall save, defend, indemnify and hold harmless the Seller and its shareholders, managers, officers, directors, employees, agents, accountants, counsel or other Affiliates or representatives (the "Seller Indemnified Parties") from and against any and all Losses to the extent arising out of or resulting from:

(i) any inaccuracy in or any breach of any representation or warranty made by the Buyer contained in this Agreement, in any Ancillary Agreements, or any certificate delivered pursuant hereto;

(ii) any breach of any covenant or agreement by the Buyer contained in this Agreement; and

(iii) any Assumed Liability.

(d) Matters Involving Third Parties.

(i) If any third party shall notify any Party (the "Indemnified Party") with respect to any matter (a "Third Party Claim") which may give rise to a claim for indemnification against any other Party (the "Indemnifying Party") under this Section 8, then the Indemnified Party shall promptly notify each Indemnifying Party thereof in writing; provided, however, that no delay on the part of the Indemnified Party in notifying any Indemnifying Party shall relieve the Indemnifying Party from any obligation hereunder unless (and then solely to the extent) the Indemnifying Party thereby is prejudiced.

(ii) Any Indemnifying Party will have the right to defend the Indemnified Party against the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party so long as (A) the Indemnifying Party notifies the Indemnified Party in writing within thirty (30) days after the Indemnified Party has given notice of the Third Party Claim that the Indemnifying Party will indemnify the Indemnified Party from and against any Losses to the extent arising out of or resulting from the Third Party Claim, (B) the Indemnifying Party provides the Indemnified Party with evidence acceptable to the Indemnified Party (including the provision of a performance bond) that the Indemnifying Party will have the financial resources to defend against the Third Party Claim and fulfill its indemnification obligations hereunder, (C) the Third Party Claim involves only money damages and does not seek an injunction or other equitable relief, (D) the settlement of, or an adverse judgment with respect to, the Third Party Claim is not, in the good faith judgment of the Indemnified Party, likely to establish a precedential custom or practice adverse to the continuing business interests of the Indemnified Party, and (E) the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently.

(iii) So long as the Indemnifying Party is conducting the defense of the Third Party Claim in accordance with Section 8(d)(ii) above, (A) the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim, (B) the Indemnified Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnifying Party (not to be withheld unreasonably), and (C) the Indemnifying Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Party (not to be withheld unreasonably).

(iv) In the event any of the conditions in Section 8(d)(ii) above is or becomes unsatisfied, however, (A) the Indemnified Party may defend against, and consent to the entry of any judgment or enter into any settlement with respect to, the Third Party Claim in any manner it may deem appropriate (and the Indemnified Party need not consult with, or obtain any consent from, any Indemnifying Party in connection therewith), (B) the Indemnifying Parties will reimburse the Indemnified Party promptly and periodically for the costs of defending against the Third Party Claim (including reasonable attorneys' fees and expenses), and (C) the Indemnifying Parties will remain responsible to indemnify the Indemnified Party for any Losses to the extent arising out of or resulting from the Third Party Claim to the fullest extent provided in this Section 8.

(e) Limits on Indemnification.

(i) Notwithstanding anything to the contrary contained in this Agreement:

(A) the maximum aggregate amount of indemnifiable Losses that may be recovered from the Seller by the Buyer Indemnified Parties pursuant to Section 8(b) shall be Twenty Million Dollars ($20,000,000) (the "Cap Amount");

(A) the Buyer agrees that in no event will the aggregate amount payable by the Seller for a breach of Section 3(g) hereof exceed:

i) Twenty Million Dollars ($20,000,000) in the aggregate related to the Buyer's or its Affiliates use of the Core IP and Acquired Patents; and

ii) One Million Dollars ($1,000,000) in the aggregate related to the Buyer's or its Affiliates use of the Non-Core IP and all other Business Intellectual Property, other than Core IP and Acquired Patents.

(B) the Seller shall not be liable to any Buyer Indemnified Party for any claim for indemnification unless and until the aggregate amount of indemnifiable Losses that may be recovered from the Seller equals or exceeds Two Hundred Thousand Dollars ($200,000) (the "Basket Amount"), in which case the Seller shall be liable only for the Losses in excess of the Basket Amount. Notwithstanding anything in this Agreement to the contrary, neither the Basket Amount nor the Cap Amount nor any limitation as to the timing of presentment shall apply to indemnification claims with respect to any Excluded Liabilities, breaches of the representations and warranties set forth in Section 3(b) ("Authorization of the Transaction"), Section 3(f) ("Title to Assets"), claims arising from fraud or intentional misrepresentation by the Seller, or each Party's covenants.

(C) no Party shall have any liability under this Section 8 to the other Party or its Affiliates for any punitive, incidental, consequential, special or indirect damages (including business interruption, diminution of value, loss of future revenue, profits or income, or loss of business reputation or opportunity);

(D) in the event the Buyer executes this Agreement notwithstanding actual knowledge by the Buyer or any Affiliate of the Buyer of any breach by the Seller of any representation, warranty or covenant in this Agreement, no Buyer Indemnified Party shall have any claim or recourse against the Seller or any of its Affiliates or representatives with respect to such breach, under this Section 8 or otherwise; and

(E) subject to the Seller's compliance with its obligations under Section 11(c), the Seller shall not be liable to any Buyer Indemnified Party for any claim for indemnification pursuant to Section 8(b) of this Agreement arising out of or resulting from the Seller's inadvertent failure to deliver to the Buyer any Acquired Asset in the possession of the Seller at the time of the Closing.

(ii) The amount of any and all Losses under this Section 8 shall be determined net of (A) any Tax benefit available to the applicable Indemnified Party or its Affiliates arising in connection with the accrual, incurrence or payment of any such Losses (including, without limitation, any Tax benefit arising in subsequent taxable years) and (B) any insurance or other recoveries payable to the Indemnified Party or its Affiliates in connection with the facts giving rise to the right of indemnification. Each Party hereby waives, to the extent permitted under its applicable insurance policies, any subrogation rights that its insurer may have with respect to any indemnifiable Losses.

(iii) The Buyer and the Seller shall cooperate with each other with respect to resolving any claim, liability or Loss for which indemnification may be required hereunder, including by making, or causing the applicable Indemnified Party to make, all reasonable efforts to mitigate any such claim, liability or Loss. In the event that the Buyer or the Seller shall fail to make such reasonable efforts, then notwithstanding anything else to the contrary contained herein, the other Party shall not be required to indemnify any Person for any claim, liability or Loss that could reasonably be expected to have been avoided if such efforts had been made. Without limiting the generality of the foregoing, the Buyer and the Seller shall, or shall cause the applicable Indemnified Party to, use reasonable efforts to seek full recovery under all insurance policies covering any Loss to the same extent as they would if such Loss were not subject to indemnification hereunder.

(f) Assignment of Claims. If any Buyer Indemnified Party receives any payment from the Seller in respect of any Losses pursuant to Section 8(b) and the Buyer Indemnified Party could have recovered all or a part of such Losses from a third party (a "Potential Contributor") based on the underlying claim asserted against the Seller, the Buyer Indemnified Party shall assign, on a non-recourse basis and without any representation or warranty, such of its rights to proceed against the Potential Contributor as are necessary to permit the Seller to recover from the Potential Contributor the amount of such payment. If any such assignment would afford the Potential Contributor any defense to the payment of the same, such assignment shall not take place and the Buyer Indemnified Party will, at the Seller's direction and expense, take all reasonable actions to seek to recover such claim from such Potential Contributor. Any payment received in respect of such claim against the Potential Contributor (whether by the Seller or the relevant Buyer Indemnified Party as provided in the immediately preceding sentence) shall be distributed, (i) first, to the Buyer Indemnified Party in the amount of any deductible or similar amount required to be paid by the Buyer Indemnified Party prior to the Seller being required to make any payment to the Buyer Indemnified Party plus, in the case of any claim by a Buyer Indemnified Party as provided in the immediately preceding sentence, the costs and expenses incurred in investigating, prosecuting, defending or otherwise addressing such claim, (ii) second, to the Seller in an amount equal to the aggregate payments made by the Seller to the Buyer Indemnified Party in respect of such claim, plus the costs and expenses incurred in investigating, prosecuting, defending or otherwise addressing such claim and (iii) third, the balance, if any, to the Buyer Indemnified Party.

(g) Exclusivity. After the Closing, except (i) as expressly set forth herein, (ii) for remedies that cannot be waived as a matter of law, and (iii) for claims arising from fraud or intentional misrepresentation by the Seller, this Section 8 will provide the exclusive remedy against the Seller for any breach of any representation, warranty, or other claim arising out of or relating to this Agreement or any Ancillary Agreement and/or the transactions contemplated hereby or thereby.

9. Transition.

(a) Transition Period. The Seller, pursuant to the license granted in the License Agreement, will have ninety (90) days from the date of the Closing (the "Transition Period") to service its then existing customers with Top-Flite Brand product that is in inventory and "wind down" that business in a responsible manner that gives the Seller's customers a reasonable opportunity to prepare for the cut off in supply of Top-Flite Brand product from the Seller. For the avoidance of doubt, the Seller shall be permitted to manufacture limited quantities of Top Flight Brand product to service its then existing customers as described in the foregoing sentence. During the Transition Period, the Seller shall be permitted to fill existing open orders and ship replenishment orders to its existing customers in volumes that are commensurate with the same ninety (90) day period in the past year. During the Transition Period, the Seller will provide to the Buyer weekly updates on shipments, open orders and replenishment orders. Within thirty (30) days after the Transition Period and after the Buyer's receipt of documentation as to the cost, amount and quantity of the inventory the Buyer shall buy the Seller's Top-Flite Brand inventory consistent with the terms herein. Except for Range Balls (as defined below), the Seller will have twenty-four (24) months to sell through any Top-Flite Brand inventory that the Buyer does not purchase. Except for Range Balls, the Top-Flite Brand inventory retained by the Seller (the "Retained Inventory") may only be sold outside of the United States in a manner reasonably believed by the Seller to result in such Retained Inventory remaining outside of the United States (recognizing that the Seller can only control who it sells to and not what a customer does with the product after it is sold, but shall not sell to any entity that it knows or has reason to know intend to import said inventory into the United States). The Seller will provide the Buyer with such information reasonably requested by the Buyer to enable it to monitor the Seller's compliance with this covenant.

(b) Range Balls. Until December 31, 2012, the Seller shall be permitted to sell Top-Flite Brand range balls ("Range Balls") anywhere in the world. Between December 31, 2012, and the date twenty-four (24) months from the date of the Closing, Range Balls may only be sold outside of the United States in a manner reasonably believed by the Seller to result in Range Balls remaining outside of the United States (recognizing that the Seller can only control who it sells to and not what a customer does with the product after it is sold, but shall not sell to any entity that it knows or has reason to know intend to import said inventory into the United States).

10. Top-Flite Inventory.

(a) U.S. 2010 and 2011 and 2012 Golf Ball/Boxed Club Sets Inventory. Following the Transition Period, Dick's will acquire from the Seller all of the Seller's (i) Top-Flite Brand golf ball inventory consisting of golf balls that are saleable through United States retail locations and designated and marketed by the Seller as 2010 golf balls or 2011 golf balls or 2012 golf balls and (ii) Top-Flite Brand boxed set club inventory designated and marketed by the Seller as 2010 or 2011 or 2012 products (collectively, the "2010/2011/2012 Inventory") for an amount in cash equal to the Seller's standard cost of goods for such inventory as determined in accordance with calculation found on Schedule 9, plus any applicable Transfer Taxes. The 2010/2011/2012 Inventory shall exclude any Range Balls.

(b) U.S. 2009 Golf Ball/Boxed Club Sets Inventory. Following the Transition Period, Dick's will acquire from the Seller all of the Seller's (i) Top-Flite Brand golf ball inventory consisting of golf balls that are saleable through United States retail locations and designated and marketed by the Seller as 2009 golf balls and (ii) Top-Flite Brand boxed set club inventory designated and marketed by the Seller as 2009 product (collectively, the "2009 Inventory") for an amount in cash equal to seventy-five percent (75%) of the Seller's standard cost of goods for such inventory, as determined in accordance with calculation found on Schedule 9. The 2009 Inventory shall exclude any Range Balls.

(c) Other Finished Goods Inventory. Following the Transition Period, Dick's may acquire from the Seller other Top-Flite Brand finished goods inventory (e.g., pre-2009 golf balls and boxed club sets inventory, hats, gloves, footwear and other golf related accessories) of such types, in such amounts and at such prices as mutually agreed upon by the Parties based on factors including size, quantity and quality.

(d) Non-Finished Goods Inventory. Following the Transition Period, Dick's will acquire from the Seller other specified non-finished goods inventory (e.g., raw materials and works-in-process, including packaging) exclusively related to Top-Flite Brand products, consisting of items such as packaging (provided it can be used and is saleable through United States retail locations) and other similar miscellaneous inventory, for an amount in cash equal to the Seller's cost, but in any event not to exceed an aggregate price of Three Hundred Fifty Thousand Dollars ($350,000) plus any applicable Transfer Taxes. Primed or stamped range golf balls, and any packaging related thereto, and any non-finished goods inventory specified by the Buyer will be excluded from the inventory that is acquired by the Buyer.

(e) Transition Documentation. The Seller will keep complete, true and accurate books of accounts and records to document all payments payable to the Seller under this Section 10. Such books and records will be kept at the Seller's principal place of business or at a designated records repository for eighteen (18) months after the end of the Transition Period, and will be open at all reasonable times for inspection by a representative of the Buyer for verification. In the event such audit reveals that the Seller has overcharged Dick's, the Seller will within five (5) business days refund the overcharge amount to Dick's. In the event that the audit reveals an overcharge greater than five percent (5%), the Seller will pay all of Dick's reasonable and actually incurred costs in conducting the audit.

11. Miscellaneous.

(a) Press Releases and Announcements. No Party shall issue any press release or public disclosure relating to the subject matter of this Agreement without the prior written approval of the other Party or Parties; provided, however, that any Party may make any public disclosure it believes in good faith is required by law, regulation or stock exchange rule (in which case the disclosing Party shall advise the other Party or Parties and the other Party or Parties shall, if practicable, have the right to review such press release or announcement prior to its publication).

(b) Retention of Books and Records. In order to facilitate the resolution of any claims made against or incurred by the Seller, the Seller may retain a copy of the Top-Flite Documentation and any other books and records relating to the Business relating to the periods prior to the Closing. Such Top-Flite Documentation shall be deemed the confidential information of the Buyer and shall not be shared or disclosed to a third party without the Buyer's prior written consent.

(c) Further Assurances. In connection with this Agreement and the transactions contemplated hereby, each Party shall use commercially reasonable efforts to (i) execute and deliver any additional documents and instruments and (ii) perform any additional acts that may be necessary or appropriate to effectuate and perform the provisions of this Agreement and the transactions contemplated hereby. In the event that the Seller becomes aware of any Acquired Asset that was not transferred to the Buyer, the Seller shall use commercially reasonable efforts to (i) execute and deliver any additional documents and instruments and (ii) perform any additional acts that may be necessary or appropriate to transfer, convey, and/or deliver such Acquired Asset to the Buyer. Each Party hereto agrees to use its commercially reasonable efforts to cooperate fully with the other party hereto in assisting it to comply with the provisions of this Section 11(c). Notwithstanding anything contained in this Section 11(c) to the contrary, no Party hereto shall be required to initiate any litigation, make any substantial payment or incur any material economic burden in connection with such party's obligations under this Section 11(c).

(d) No Third-Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

(e) Entire Agreement. This Agreement (including the Ancillary Agreements and the documents referred to herein) constitutes the entire agreement between the Parties and supersedes any prior understandings, agreements, or representations by or between the Parties, written or oral, to the extent they related in any way to the subject matter hereof.

(f) Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and assigns.

(g) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

(h) Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

(i) Notices. All notices, requests, demands, claims, and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given if (and then four (4) Business Days after) it is sent by registered or certified mail, return receipt requested, postage prepaid, and addressed to the intended recipient as set forth below:

If to the Seller:	Callaway Golf Company 2180 Rutherford Road Carlsbad, CA 92008 Attn: Brian Lynch, Vice President and Corporate Secretary Email: BrianL@callawaygolf.com Phone: 760-931-1771
Copy to:	Gibson, Dunn & Crutcher LLP 3161 Michelson Drive Irvine, CA 92612 Attn: Tom Magill Email: tmagill@gibsondunn.com Phone: 949-451-3855
If to Dick's:	Dick's Sporting Goods, Inc. 345 Court Street Coraopolis, PA 150108 Attn: David I. Mossé, Senior Vice President and General Counsel Email: David.Mosse@dcsg.com Phone: 724-273-4479
If to ASLI:	American Sports Licensing, Inc. 1011 Centre Road, Suite 339 Wilmington, DE 19805 Attn: Darrell Lane, VP/ Asst. Treasurer Email: DLane@Belfint.com Phone: 302-573-3947
Copy to (for both ASLI and Dick's):	Greenberg Traurig, LLP 77 W. Wacker Dr. Suite 3100 Chicago, IL 60601 Attn: Mark Galis Email: Galism@gtlaw.com Phone: 312-456-6589

All notices required or permitted to be given hereunder shall be in writing and may be delivered by hand, by facsimile, by nationally recognized private courier, or by United States mail. Notices shall not be deemed to have been duly given unless and until they are actually received by the intended recipient. Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Party notice in the manner herein set forth.

(j) Governing Law. This Agreement shall be governed by and construed in accordance with the domestic laws of the Commonwealth of Pennsylvania without giving effect to any choice or conflict of law provision or rule.

(k) Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by the Buyer and the Seller. No waiver by any Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any such prior or subsequent occurrence.

(l) Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

(m) Expenses. Each of the Buyer, on the one hand, and the Seller, on the other hand, will bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

(n) No Presumption Against the Drafting Party. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement.

(o) Construction. As used herein, the singular shall include the plural, the masculine gender shall include the feminine and neuter and the neuter gender shall include the masculine and feminine unless the content otherwise indicates. Information contained in any Schedule shall be deemed contained in each and every other Schedule without requiring repetition thereof. The terms “include,” “includes” and “including” shall be deemed to be followed by “without limitation.” Any date specified for action that is not a Business Day shall mean the first Business Day after such date. Any reference to a Person shall be deemed to include such Person’s successors and permitted assigns. References to money refer to legal currency of the United States of America. Unless expressly stated otherwise, whenever a Person is to determine that something is “satisfactory to,” “acceptable to,” or “to the satisfaction of” such Person, the determination may not be made in bad faith.

(p) References. References to Sections are intended to refer to Sections of this Agreement, and all references to Exhibits and Schedules are intended to refer to Exhibits and Schedules attached to this Agreement, each of which is made a part of this Agreement for all purposes. Any reference to any document or documents shall be deemed to refer to such document or documents as amended, modified, supplemented or replaced from time to time in accordance with the terms thereof. References to Laws refer to such Laws as they may be amended from time to time, and references to particular provisions of a law include any corresponding provisions of any succeeding Law. The words "herein," "hereof" and "hereunder" and words of similar import shall refer to this Agreement as a whole and not to any particular Section or subsection of this Agreement.

(q) Disclosures Generally. Notwithstanding anything to the contrary contained in the Disclosure Schedule or in this Agreement, the information and disclosures contained in any Disclosure Schedule shall be deemed to be disclosed and incorporated by reference in any other Disclosure Schedule as though fully set forth in such Disclosure Schedule for which applicability of such information and disclosure is reasonably apparent on its face. The fact that any item of information is disclosed in any Disclosure Schedule shall not be construed to mean that such information is required to be disclosed by this Agreement. Such information and the dollar thresholds set forth herein shall not be used as a basis for interpreting the terms "material" or other similar terms in this Agreement.

(r) Submission to Jurisdiction. Each of the Parties submits to the jurisdiction of any state or federal court sitting in Pittsburgh, Pennsylvania, in any action or proceeding arising out of or relating to this Agreement or the Ancillary Agreements and agrees that all claims in respect of the Action or proceeding may be heard and determined in any such court. Each Party also agrees not to bring any Action or proceeding arising out of or relating to this Agreement or the Ancillary Agreements in any other court. Each of the Parties waives any defense of inconvenient forum to the maintenance of any Action or proceeding so brought and waives any bond, surety, or other security that might be required of any other Party with respect thereto. Any Party may make service on the other Party by sending or delivering a copy of the process to the Party to be served at the address and in the manner provided for the giving of notices in Section 11(i) above. Each Party agrees that a final judgment in any action or proceeding so brought shall be conclusive and may be enforced by suit on the judgment or in any other manner provided by law or in equity.

(s) Waiver of Jury Trial. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY ANCILLARY AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

(t) Personal Liability. This Agreement shall not create or be deemed to create or permit any personal liability or obligation on the part of any direct or indirect stockholder of the Seller or the Buyer or any officer, director, employee, representative or investor of any Party hereto.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the date first above written.

AMERICAN SPORTS LICENSING, INC.

By: /s/ Timothy E. Kullman
Name: Timothy E. Kullman
Title: President

DICK'S SPORTING GOODS, INC.

By: /s/ Timothy E. Kullman
Name: Timothy E. Kullman
Title: Executive Vice President — Finance, Administration and Chief Financial Officer

CALLAWAY GOLF COMPANY

By: /s/ Bradley J. Holiday
Name: Bradley J. Holiday
Title: Senior Executive Vice President and Chief Financial Officer

List of omitted exhibits:

Exhibit A – Bill of Sale
Exhibit B – Assignment of Domain Names
Exhibit C-1 – Assignment of Patents (U.S. and Canada)
Exhibit C-2 – Assignment of Patents (International)
Exhibit D-1 – Assignment of Trademarks (U.S. and Canada)
Exhibit D-2 – Assignment of Trademarks (International)
Exhibit E – License Agreement

CERTIFICATION

I, Oliver G. Brewer, III, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ OLIVER G. BREWER, III

Oliver G. Brewer, III
President and Chief Executive Officer

Dated: April 27, 2012

Exhibit 31.2

CERTIFICATION

I, Bradley J. Holiday, certify that:

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

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

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

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/S/ BRADLEY J. HOLIDAY

Bradley J. Holiday
Senior Executive Vice President and
Chief Financial Officer

Dated: April 27, 2012

Exhibit 32.1

**CERTIFICATION PURSUANT
TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Callaway Golf Company, a Delaware corporation (the "Company"), does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the quarterly period ended March 31, 2012, as filed with the Securities and Exchange Commission (the "10-Q Report"), that:

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

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

The undersigned have executed this Certification effective as of April 27, 2012.

/S/ OLIVER G. BREWER, III
Oliver G. Brewer, III
President and Chief Executive Officer

/S/ BRADLEY J. HOLIDAY
Bradley J. Holiday
Senior Executive Vice President and
Chief Financial Officer