UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2003

Commission file number 1-10962

Callaway Golf Company

(Exact name of registrant as specified in its charter)

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

2180 Rutherford Road, Carlsbad, CA 92008

(760) 931-1771

(Address, including zip code, and telephone number, including area code, of principal executive offices)

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

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

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of July 31, 2003 was 75,545,649.

Important Notice to Investors: Statements made in this report that relate to future plans, events, liquidity, financial results or performance including statements relating to sufficiency of liquidity or the estimated charges to earnings the Company could incur if it completes its acquisition of the assets associated with Top Flite's golf business, are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are based upon current information and expectations. Actual results may differ materially from those anticipated as a result of certain risks and uncertainties. For details concerning these and other risks and uncertainties, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain Factors Affecting Callaway Golf Company" contained in this report, as well as the Company's other reports on Forms 10-K, 10-Q and 8-K subsequently filed with the Securities and Exchange Commission from time to time. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Investors should also be aware that while the Company from time to time does communicate with securities analysts, it is against the Company's policy to disclose to them any material non-public information or other confidential commercial information. Furthermore, the Company has a policy against issuing or confirming financial forecasts or projections issued by analysts and any reports issued by such analysts are not the responsibility of the Company. Investors should not assume that the Company agrees with any report issued by any analyst or with any statements, projections, forecasts or opinions contained in any such report.

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

TABLE OF CONTENTS

CALLAWAY GOLF COMPANY

INDEX

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CALLAWAY GOLF COMPANY

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

	June 30, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 137,459	$ 108,452
Accounts receivable, net	196,563	63,867
Inventories, net	119,631	151,760
Deferred taxes	34,169	34,519
Other current assets	8,208	10,429
Total current assets	496,030	369,027
Property, plant and equipment, net	151,560	167,340
Intangible assets, net	102,424	103,115
Goodwill	19,171	18,202
Deferred taxes	6,032	5,216
Other assets	16,551	16,945
	$ 791,768	$ 679,845
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 71,233	$ 61,720
Accrued employee compensation and benefits	24,972	23,168
Accrued warranty expense	14,580	13,464
Note payable	1,608	3,160
Income taxes payable	35,762	7,649
Total current liabilities	148,155	109,161
Long-term liabilities:		
Deferred compensation	7,855	7,375
Energy derivative valuation account	19,922	19,922
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at June 30, 2003 and December 31, 2002.	—	—
Common Stock, $.01 par value, 240,000,000 shares authorized, 83,577,427 and 83,577,427 issued at June 30, 2003 and December 31, 2002, respectively	836	836
Paid-in capital	370,092	371,496
Unearned compensation	—	(15)
Retained earnings	506,863	439,454
Accumulated other comprehensive loss	(150)	(3,847)
Less: Grantor Stock Trust held at market value, 9,701,528 shares and 10,128,723 shares at June 30, 2003 and December 31, 2002, respectively	(128,254)	(134,206)
	749,387	673,718
Less: Common Stock held in treasury, at cost, 8,048,778 shares and 7,772,378 shares at June 30, 2003 and December 31, 2002, respectively	(133,551)	(130,331)
Total shareholders' equity	615,836	543,387
	$ 791,768	$ 679,845

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

CALLAWAY GOLF COMPANY

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2003		2002		2003		2002	
Net sales	$242,077	100%	$252,473	100%	$513,796	100%	$509,182	100%
Cost of goods sold	115,583	48%	114,684	45%	249,465	49%	242,641	48%
Gross profit	126,494	52%	137,789	55%	264,331	51%	266,541	52%
Operating expenses:								
Selling	53,164	22%	54,978	22%	102,064	20%	112,277	22%
General and administrative	14,629	6%	14,988	6%	28,470	6%	28,408	6%
Research and development	6,242	3%	8,444	3%	12,914	3%	16,327	3%
Total operating expenses	74,035	31%	78,410	31%	143,448	28%	157,012	31%
Income from operations	52,459	22%	59,379	24%	120,883	24%	109,529	22%
Other income, net	1,472		1,404		288		1,022	
Income before provision for income taxes	53,931	22%	60,783	24%	121,171	24%	110,551	22%
Provision for income taxes	19,788		23,641		44,550		42,715	
Net income	$ 34,143	14%	$ 37,142	15%	$ 76,621	15%	$ 67,836	13%
Earnings per common share:								
Basic	$ 0.52		$ 0.56		$ 1.16		$ 1.01	
Diluted	$ 0.52		$ 0.55		$ 1.16		$ 0.99	
Weighted-average shares outstanding:								
Basic	65,804		66,922		65,770		67,132	
Diluted	66,146		67,910		66,036		68,264	
Dividends paid per share	$ 0.07		$ 0.07		$ 0.14		$ 0.14	

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

CALLAWAY GOLF COMPANY

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2003	**2002**
Cash flows from operating activities:		
Net income	$ 76,621	$ 67,836
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	20,316	17,031
Loss on disposal of assets	391	199
Tax benefit from exercise of stock options	161	4,451
Non-cash compensation	15	221
Net non-cash foreign currency hedging losses (gains)	2,198	(3,784)
Net losses (gains) from sale of marketable securities	98	(35)
Deferred taxes	(18)	(1,356)
Non-cash advertising expense	219	—
Changes in assets and liabilities:		
Accounts receivable, net	(129,678)	(120,864)
Inventories, net	33,990	26,970
Other assets	1,308	12,995
Accounts payable and accrued expenses	4,948	15,330
Accrued employee compensation and benefits	1,712	4,754
Accrued warranty expense	1,116	(1,073)
Income taxes payable	28,069	22,289
Deferred compensation	480	1,659
Net cash provided by operating activities	41,946	46,623
Cash flows from investing activities:		
Capital expenditures	(3,956)	(14,632)
Acquisitions, net of cash acquired	—	(8)
Investment in marketable securities	—	(540)
Proceeds from sale of marketable securities	24	6,997
Cash paid for investments	—	(2,000)
Proceeds from sale of capital assets	104	862
Net cash used in investing activities	(3,828)	(9,321)
Cash flows from financing activities:		
Payments on note payable	(1,552)	(1,166)
Issuance of Common Stock	4,387	12,923
Acquisition of Treasury Stock	(3,220)	(33,212)
Dividends paid, net	(9,212)	(9,398)
Net cash used in financing activities	(9,597)	(30,853)
Effect of exchange rate changes on cash and cash equivalents	486	1,358
Net increase in cash and cash equivalents	29,007	7,807
Cash and cash equivalents at beginning of period	108,452	84,263
Cash and cash equivalents at end of period	$ 137,459	$ 92,070

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

CALLAWAY GOLF COMPANY

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

	Common Stock		Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Loss	GST	Treasury Stock		Total
	Shares	Amount						Shares	Amount	
Balance, December 31, 2002	83,577	$836	$371,496	$(15)	$439,454	$(3,847)	$(134,206)	(7,772)	$(130,331)	$543,387
Exercise of stock options	—	—	(385)	—	—	—	2,316	—	—	1,931
Tax benefit from exercise of stock options	—	—	161	—	—	—	—	—	—	161
Acquisition of Treasury Stock	—	—	—	—	—	—	—	(276)	(3,220)	(3,220)
Compensatory stock and stock options	—	—	—	15	—	—	—	—	—	15
Employee stock purchase plan	—	—	(741)	—	—	—	3,197	—	—	2,456
Cash dividends declared	—	—	—	—	(9,212)	—	—	—	—	(9,212)
Adjustment of Grantor Stock Trust shares to market value	—	—	(439)	—	—	—	439	—	—	—
Equity adjustment from foreign currency translation	—	—	—	—	—	2,485	—	—	—	2,485
Unrealized gain on cash flow hedges, net of tax	—	—	—	—	—	1,120	—	—	—	1,120
Change in unrealized loss on marketable securities	—	—	—	—	—	92	—	—	—	92
Net income	—	—	—	—	76,621	—	—	—	—	76,621
Balance, June 30, 2003	83,577	$836	$370,092	$ —	$506,863	$ (150)	$(128,254)	(8,048)	$(133,551)	$615,836

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 interim financial statements have been prepared by Callaway Golf Company (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These 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, 2002 filed with the Securities and Exchange Commission. These consolidated condensed financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for the fair presentation of the financial position, results of operations and cash flows for the periods and dates presented. Interim operating results are not necessarily indicative of operating results for the full year.

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

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

2. Asset Purchase Agreement

On June 30, 2003, the Company announced that it had entered into an agreement with The Top-Flite Golf Company to purchase substantially all of the assets associated with Top-Flite's golf business, including its manufacturing facilities, the Top-Flite, Strata and Ben Hogan brands, and all U.S. and foreign golf-related patents and trademarks. The Top-Flite Golf Company, formerly known as Spalding Sports Worldwide, manufactures both golf balls and golf clubs. The assets would be acquired free and clear of any existing debt and most other liabilities pursuant to a Chapter 11 petition filed by The Top-Flite Golf Company on June 30, 2003. The total price to be paid by Callaway Golf Company for the acquired assets under the terms of the agreement is approximately $125,000,000, subject to certain adjustments. As part of the bankruptcy approval process, the bankruptcy court has approved the Company as the "stalking horse" bidder but the bankruptcy court will permit other bidders who meet certain qualifications the opportunity to submit higher and better bids than the Company's bid. Such other bids must provide for an aggregate purchase price of at least $1,000,000 more than, and may not be on terms materially more burdensome or conditional than, the Company's bid. Some other firms, including some of the Company's competitors, have already expressed an interest in participating in the bidding process. If a third party submits a higher and better bid than the Company's bid, the Company would have the opportunity to increase its bid if it desired to do so. As a result of this process, it is possible that the Company ultimately will not consummate the purchase of the Top-Flite assets or that the amount the Company must pay for the assets will exceed its current bid of $125,000,000 (see Note 11).

3. Recent Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 clarifies the accounting for certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those financial instruments were classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not believe that the adoption of SFAS No. 150 will have a significant impact on its financial statements.

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

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an Amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require in both annual and interim financial statements prominent disclosures about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company is required to follow the prescribed disclosure format and has provided the additional disclosures required by SFAS No. 148 for the quarterly period ended June 30, 2003 (see Note 4).

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

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of such costs covered by the standard include lease termination costs and certain employee severance costs associated with a restructuring, discontinued operation, plant closing or other exit or disposal activity. SFAS No. 146 is effective prospectively for exit and disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 has not had a material impact on the Company's results of operations or financial position.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." SFAS No. 145 also

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers." SFAS No. 145 amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 were adopted on January 1, 2003. The provisions related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. All other provisions of SFAS No. 145 are effective for financial statements issued after May 15, 2002. The adoption of SFAS No. 145 has not had a material impact on the Company's results of operations or financial position.

4. Accounting for Stock-Based Compensation

The Company accounts for its stock-based employee compensation plans using the intrinsic value recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. For the three and six months ended June 30, 2002, the Company recorded employee compensation expense of $46,000 and $92,000 in net income as a result of the restricted stock awards granted in 1998. The restricted stock awards vested in January 2003 and the Company recorded $15,000 of employee compensation expense in net income for the six months ended June 30, 2003. No expense was recorded during the three months ended June 30, 2003. All other employee stock-based awards were granted with an exercise price equal to the market value of the underlying common stock on the date of grant and no compensation cost is reflected in net income for those awards. Compensation expense for non-employee stock-based compensation awards is measured using the fair-value method.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income:				
Net income, as reported	$34,143	$37,142	$76,621	$67,836
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	—	28	10	57
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,259)	(2,970)	(4,617)	(5,561)
Pro forma net income	$31,844	$34,200	$72,014	$62,332
Earnings per common share:				
Basic — as reported	$ 0.52	$ 0.56	$ 1.16	$ 1.01
Basic — pro forma	$ 0.48	$ 0.51	$ 1.09	$ 0.93
Diluted — as reported	$ 0.52	$ 0.55	$ 1.16	$ 0.99
Diluted — pro forma	$ 0.48	$ 0.50	$ 1.09	$ 0.91

Under the fair-value method, compensation expense is measured at the grant date based on the fair value of the award using an option-pricing model. Compensation expense is recognized on a straight-line basis over

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

the vesting period. The fair value of employee stock options was estimated using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Dividend yield	1.8%	1.7%	1.8%	1.7%
Expected volatility	48.9%	52.2%	48.3%	52.2%
Risk free interest rates	1.22%-3.93%	1.94%-2.37%	1.22%-3.93%	1.94%-2.37%
Expected lives	3-4 years	3-4 years	3-4 years	3-4 years

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

5. Marketable Securities and Other Investments

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

The Company held no marketable securities at June 30, 2003. Marketable securities at December 31, 2002 were $26,000 and consisted primarily of investments in public corporations, which were classified as available-for-sale securities within other assets. Proceeds from the sale of available-for-sale securities for the six months ended June 20, 2003 and 2002 were $24,000 and $6,997,000, respectively. The Company records gains and losses on available-for-sale securities sold and unrealized and realized gains on trading securities in other income (expense), net. For the three months ended June 30, 2003 and 2002, the Company recorded net gains of $0 and $37,000, respectively. For the six months ended June 30, 2003 and 2002, the Company recorded net losses of $98,000 and net gains of $35,000, respectively.

6. Inventories

Inventories are summarized below (in thousands):

	June 30, 2003	December 31, 2002
Raw materials	$ 60,113	$ 63,953
Work-in-process	1,782	2,550
Finished goods	72,198	102,018
	134,093	168,521
Reserve for excess and obsolescence	(14,462)	(16,761)
	$119,631	$151,760

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

7. Goodwill and Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." As a result of adopting SFAS No. 142, the Company's goodwill and certain intangible assets are no longer amortized, but are subject to an annual impairment test. The following sets forth the intangible assets by major asset class (in thousands):

	June 30, 2003			December 31, 2002		
	Gross	Accumulated Amortization	Net Book Value	Gross	Accumulated Amortization	Net Book Value
Non-amortizing:						
Trade name[1]	$ 62,013	$ —	$ 62,013	$ 62,013	$ —	$ 62,013
Trademark and trade dress[1]	26,577	—	26,577	26,577	—	26,577
Amortizing patents and other	20,163	6,329	13,834	20,224	5,699	14,525
Total intangible assets	$108,753	$6,329	$102,424	$108,814	$5,699	$103,115

(1) Acquired through acquisition transactions.

Amortizing intangible assets are amortized using the straight-line method over periods ranging from 3 to 16 years. During the three months ended June 30, 2003 and 2002, aggregate amortization expense was approximately $352,000 and $497,000, respectively. During the six months ended June 30, 2003 and 2002, aggregate amortization expense was approximately $703,000 and $921,000, respectively. Amortization expense in each of the next five fiscal years and beyond is expected to be incurred as follows (in thousands):

Remainder of 2003	$ 788
2004	1,491
2005	1,476
2006	1,345
2007	1,340
2008	1,332
Thereafter	6,062
	$13,834

Changes in goodwill during the six months ended June 30, 2003 were due to foreign currency fluctuations.

8. Debt

Effective June 16, 2003, the Company terminated its prior revolving credit facility with GE Capital Corporation and other lenders and entered into a new Credit Agreement (the "BOA Agreement") with Bank of America, N.A. ("BOA") to provide a new line of credit that is scheduled to be available until June 16, 2005, subject to earlier termination in accordance with the terms of the BOA Agreement.

Subject to the terms of the BOA Agreement, the Company can borrow up to a maximum of $50,000,000 under the new line of credit. The Company is required to pay on a quarterly basis an unused commitment fee equal to 17.5 to 25.0 basis points of the unused commitment amount, with the exact amount determined based upon the Company's Consolidated Leverage Ratio. For purposes of the BOA Agreement, "Consolidated Leverage Ratio" means, as of any date of determination, the ratio of "Consolidated Funded Indebtedness" as of such date to "Consolidated EBITDA" for the four most recent fiscal quarters (as such terms are defined in the BOA Agreement). Outstanding borrowings under the BOA Agreement accrue interest at the Company's

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

election at (i) the higher of (a) the Federal Funds Rate plus 50.0 basis points or (b) BOA's prime rate, and in either case less a margin of 50.0 to 100.0 basis points depending upon the Company's Consolidated Leverage Ratio or (ii) the Eurodollar Rate (as such term is defined in the BOA Agreement), plus a margin of 75.0 to 125.0 basis points depending upon the Company's Consolidated Leverage Ratio. The Company has agreed that repayment of amounts under the BOA Agreement will be guaranteed by certain of the Company's domestic subsidiaries and will be secured by the Company's pledge of 65% of the stock it holds in certain of its foreign subsidiaries and by certain intercompany debt securities and proceeds thereof. As of June 30, 2003, there were no borrowings outstanding under the BOA Agreement.

The BOA Agreement requires the Company to maintain certain minimum financial covenants. Specifically, (i) the Company's Consolidated Leverage Ratio may not exceed 1.25 to 1.00 during any four consecutive fiscal quarters and (ii) Consolidated EBITDA for any four consecutive quarters may not be less than $50,000,000. The BOA Agreement also includes certain other restrictions, including restrictions limiting additional indebtedness, dividends, stock repurchases, transactions with affiliates, capital expenditures, asset sales, acquisitions, mergers, liens and encumbrances and other matters customarily restricted in loan documents. The BOA Agreement also contains other customary provisions, including affirmative covenants, representations and warranties and events of default. At June 30, 2003, the Company was in compliance with the covenants prescribed by the BOA Agreement.

In April 2001, the Company entered into a note payable in the amount of $7,500,000 as part of a licensing agreement for patent rights. The unsecured, interest-free note payable matures on December 31, 2003 and is payable in quarterly installments. The total amount payable in 2003 is $3,300,000. The present value of the note payable at issuance totaled $6,702,000 using an imputed interest rate of approximately 7%. The Company recorded interest expense of $42,000 and $97,000 for the three and six months ended June 30, 2003, respectively. For the three and six months ended June 30, 2002, the Company recorded interest expense of $87,000 and $184,000, respectively.

9. Product Warranty

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Beginning balance[1]	$14,798	$34,933	$13,464	$34,864
Provision	3,598	2,846	7,701	5,784
Claims paid/costs incurred	(3,816)	(3,988)	(6,585)	(6,857)
Ending balance	$14,580	$33,791	$14,580	$33,791

(1) During the third quarter of 2002, the Company refined its methodology for estimating its future warranty liability. As a result of this change in methodology, the Company reduced its warranty reserve by approximately $17,000,000. The change in methodology was accounted for as a change in accounting principle inseparable from a change in estimate.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

10. Earnings Per Share

A reconciliation of the weighted average shares used in the basic and diluted earnings per common share computations for the three and six months ended June 30, 2003 and 2002 is presented below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Weighted-average shares outstanding:				
Weighted-average shares outstanding — Basic	65,804	66,922	65,770	67,132
Dilutive securities	342	988	266	1,132
Weighted-average shares outstanding — Diluted	66,146	67,910	66,036	68,264

For the three months ended June 30, 2003 and 2002, options outstanding totaling 11,215,000 and 8,542,000 shares, respectively, were excluded from the calculations, as their effect would have been antidilutive. For the six months ended June 30, 2003 and 2002, options outstanding totaling 13,181,000 and 8,434,000 shares, respectively, were excluded from the calculations, as their effect would have been antidilutive.

11. Commitments and Contingencies

Top-Flite Acquisition

On June 30, 2003, the Company announced that it had entered into an agreement with The Top-Flite Golf Company to purchase substantially all of the assets associated with Top-Flite's golf business, including its manufacturing facilities, the Top-Flite, Strata and Ben Hogan brands, and all U.S. and foreign golf-related patents and trademarks. The total price to be paid by Callaway Golf Company for the acquired assets under the agreement is approximately $125,000,000, subject to certain adjustments. The Company faces certain risks associated with entering into such an agreement.

There is no assurance that the Company will successfully complete the acquisition. As previously announced by the Company, the acquisition is subject to certain contingencies, including the approval by the United States Bankruptcy Court in Wilmington, Delaware. Further, as part of the bankruptcy approval process, the bankruptcy court has approved the Company as the "stalking horse" bidder but the bankruptcy court will permit other bidders who meet certain qualifications the opportunity to submit higher and better bids than the Company's bid. Such other bids must provide for an aggregate purchase price of at least $1,000,000 more than, and may not be on terms materially more burdensome or conditional than, the Company's bid. Some other firms, including some of the Company's competitors, have already expressed an interest in participating in the bidding process. If a third party submits a higher and better bid than the Company's bid, the Company would have the opportunity to increase its bid if it desired to do so. As a result of this process, it is possible that the Company ultimately will not consummate the purchase of the Top-Flite assets or that the amount the Company must pay for the assets will exceed its current bid of $125,000,000.

If the Company does not successfully complete the acquisition, the Company would have to pursue other alternatives to eliminate the losses in its golf ball business. It is possible the Company could forgo other opportunities for its golf ball business while it is pursuing the acquisition. Furthermore, the failure to complete the acquisition could cause confusion surrounding the Company's golf ball business among customers, suppliers and employees, which could have an adverse impact upon the Company's golf ball business and results of operations.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

On the other hand, the Company may complete the acquisition, in which case the Company would face many challenges in trying to reverse the decline of the Top-Flite brand in the marketplace and in trying to consolidate the golf ball manufacturing operations to eliminate the losses in the Company's golf ball operations. Some of these challenges would include (i) retention of Top-Flite key employees, (ii) negotiating new labor agreements in a timely fashion, (iii) maintaining good vendor relationships, particularly if the Top-Flite vendors are not paid in full in the bankruptcy proceedings, (iv) difficulties in integrating the Top-Flite brands with the Callaway Golf Company brands and (v) employee and other issues inherent in any consolidation. Furthermore, the acquisition, integration and consolidation of the acquired assets will require a considerable amount of time and attention of senior management and others, which could have an adverse effect upon the Company's club business.

In addition, if the Company is successful in completing the acquisition, the Company could incur significant charges to earnings in connection with the consolidation of operations. The Company previously announced that it estimated such charges could be up to $70,000,000 and the majority of these charges would be non-cash.

Legal Matters

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

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

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

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

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

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

On December 2, 2002, Callaway Golf Company was served with a complaint filed in the Circuit Court of the 19th Judicial District in and for Martin County, Florida, Case No. 935CA, by the Perfect Putter Co. and certain principals of the Perfect Putter Co. Plaintiffs have sued Callaway Golf Company, Callaway Golf Sales Company and a Callaway Golf Sales Company sales representative. Plaintiffs allege that the Company misappropriated certain alleged trade secrets of the Perfect Putter Co. and incorporated those purported trade secrets in the Company's Odyssey White Hot 2-Ball Putter. Plaintiffs also allege that the Company made false statements and acted inappropriately during discussions with plaintiffs. Plaintiffs are seeking compensatory damages, exemplary damages, attorneys fees and costs, pre- and post-judgment interest and injunctive relief. On December 20, 2002, Callaway Golf removed the case to the United States District Court for the Southern District of Florida, Case No. 02-14342. On April 29, 2003, the District Court denied plaintiffs' motion to remand the case to state court, holding that the sales representative had been "fraudulently joined" solely for the purpose of defeating diversity jurisdiction. The parties are currently engaged in discovery. The trial of the action has been set to commence in the fall of 2004.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims, including the matters specifically noted above. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to estimate the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of June 30, 2003. Except as discussed above with regard to the MaxFli litigation, management believes at this time that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's consolidated annual results of operations or cash flows, or financial position.

Supply of Electricity and Energy Contracts

In the second quarter of 2001, the Company entered into an agreement with Pilot Power Group, Inc. ("Pilot Power") as the Company's energy service provider and in connection therewith entered into a long-term, fixed-priced, fixed-capacity, energy supply contract (the "Enron Contract") with Enron Energy Services, Inc. ("EESI"), a subsidiary of Enron Corporation, as part of a comprehensive strategy to ensure the uninterrupted supply of energy while capping electricity costs in the volatile California energy market. The Enron Contract provided, subject to the other terms and conditions of the contract, for the Company to

purchase nine megawatts of energy per hour from June 1, 2001 through May 31, 2006 (394,416 megawatts over the term of the contract). The total purchase price for such energy over the full contract term would have been approximately $43,484,000.

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

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

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

As a result of the Company's notice of termination to EESI, and certain other automatic termination provisions under the Enron Contract, the Company believes that the Enron Contract has been effectively and appropriately terminated. There can be no assurance that EESI or another party will not assert a future claim against the Company or that a bankruptcy court or arbitrator will not ultimately nullify the Company's termination of the Enron Contract. No provision has been made for contingencies or obligations, if any, under the Enron Contract beyond November 30, 2001 (see Note 13).

Vendor Arrangements

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

The Company has entered into long-term purchase agreements for various key raw materials. As of June 30, 2003, the purchase commitment related to golf ball materials through December 2003 was approximately $2,694,000. As of June 30, 2003, the Company did not have any outstanding commitments to purchase golf club materials.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Golf Professional Endorsement Contracts

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

Other Contingent Contractual Obligations

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company's customers and licensees in connection with the use, sale and/or license of Company products, (ii) indemnities to various lessors in connection with facility leases for certain claims arising from such facilities or leases, (iii) indemnities to vendors and service providers pertaining to claims based on the negligence or willful misconduct of the Company, (iv) indemnities involving the accuracy of representations and warranties in certain contracts and (v) indemnities to directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware. In addition, the Company has made contractual commitments to several employees providing for severance payments upon the occurrence of certain prescribed events. The Company also has several consulting agreements that provide for payment of nominal fees upon the issuance of patents and/or the commercialization of research results. The Company has also issued a guarantee in the form of a standby letter of credit as security for contingent liabilities under certain workers compensation insurance policies. The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum amount of future payments the Company could be obligated to make. Historically, costs incurred to settle claims related to indemnities have not been material to the Company's financial position, results of operations or cash flows. In addition, the Company believes the likelihood is remote that material payments will be required under the commitments and guarantees described above. The fair value of indemnities, commitments and guarantees that the Company issued during the six months ended June 30, 2003 was not material to the Company's financial position, results of operations or cash flows.

Employment Contracts

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

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

12. Segment Information

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net sales				
Golf clubs	$226,494	$228,730	$484,522	$462,917
Golf balls	15,583	23,743	29,274	46,265
	$242,077	$252,473	$513,796	$509,182
Income (loss) before provision for income taxes				
Golf clubs	$ 69,126	$ 72,832	$152,756	$137,287
Golf balls	(5,359)	(1,976)	(10,099)	(6,167)
Reconciling items[(1)]	(9,836)	(10,073)	(21,486)	(20,569)
	$ 53,931	$ 60,783	$121,171	$110,551
Additions to long-lived assets				
Golf clubs	$ 1,756	$ 7,110	$ 3,916	$ 14,006
Golf balls	—	1,107	40	1,838
	$ 1,756	$ 8,217	$ 3,956	$ 15,844

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

13. Derivatives and Hedging

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

Foreign Currency Exchange Contracts

The Company enters into foreign exchange contracts to hedge against exposure to changes in foreign currency exchange rates. Such contracts are designated at inception to the related foreign currency exposures

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

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

At June 30, 2003 and 2002, the notional amounts of the Company's foreign exchange contracts were approximately $87,722,000 and $137,755,000, respectively. The Company estimates the fair values of derivatives based on quoted market prices or pricing models using current market rates, and records all derivatives on the balance sheet at fair value. At June 30, 2003, the fair values of foreign currency-related derivatives were recorded as current assets of $605,000 and current liabilities of $1,274,000.

At June 30, 2003 and 2002, the notional amounts of the Company's foreign exchange contracts designated as cash flow hedges were approximately $22,876,000 and $41,977,000, respectively. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is initially recorded in accumulated other comprehensive income ("OCI") as a separate component of shareholders' equity and subsequently reclassified into earnings in the period during which the hedged transaction is recognized in earnings. During the three and six months ended June 30, 2003 and 2002, the Company recorded the following activity in OCI (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Beginning OCI balance related to cash flow hedges	$(1,477)	$ 7,422	$(1,362)	$ 6,424
Add: Net gain/(loss) initially recorded in OCI	(159)	(4,531)	(1,344)	(2,973)
Deduct: Net gain/(loss) reclassified from OCI into earnings	(1,075)	2,546	(2,145)	3,106
Ending OCI balance related to cash flow hedges	$ (561)	$ 345	$ (561)	$ 345

During the three and six months ended June 30, 2003, no gains were reclassified into earnings as a result of the discontinuance of cash flow hedges. During the three and six months ended June 30, 2002, $171,000 of gains were reclassified into earnings as a result of the discontinuance of cash flow hedges.

As of June 30, 2003, $561,000 of deferred net losses related to derivative instruments designated as cash flow hedges were included in OCI. These derivative instruments hedge transactions that are expected to occur within the next twelve months. As the hedged transactions are completed, the related deferred net gain or loss is reclassified from OCI into earnings. The Company does not expect that such reclassifications would have a material effect on the Company's earnings, as any gain or loss on the derivative instruments generally would be offset by the opposite effect on the related underlying transactions.

The ineffective portion of the gain or loss for derivative instruments that are designated and qualify as cash flow hedges is immediately reported as a component of other income (expense), net. For foreign

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

currency contracts designated as cash flow hedges, hedge effectiveness is measured using the spot rate. Changes in the spot-forward differential are excluded from the test of hedging effectiveness and are recorded currently in earnings as a component of other income (expense), net. During the three months ended June 30, 2003 and 2002, the Company recorded net gains of $27,000 and net gains of $560,000, respectively, as a result of changes in the spot-forward differential. During the six months ended June 30, 2003 and 2002, the Company recorded net losses of $86,000 and net gains of $717,000, respectively, as a result of changes in the spot-forward differential. Assessments of hedge effectiveness are performed using the dollar offset method and applying a hedge effectiveness ratio between 80% and 125%. Given that both the hedged item and the hedging instrument are evaluated using the same spot rate, the Company anticipates the hedges to be highly effective. The effectiveness of each derivative is assessed quarterly.

At June 30, 2003 and 2002, the notional amounts of the Company's foreign exchange contracts used to hedge outstanding balance sheet exposures were approximately $64,846,000 and $95,778,000, respectively. The gains and losses on foreign currency contracts used to hedge balance sheet exposures are recognized as a component of other income (expense), net in the same period as the remeasurement gain and loss of the related foreign currency denominated assets and liabilities and thus offset these gains and losses. During the three months ended June 30, 2003 and 2002, the Company recorded net losses of $3,536,000 and $7,588,000, respectively, due to net realized and unrealized gains and losses on contracts used to hedge balance sheet exposures. During the six months ended June 30, 2003 and 2002, the Company recorded net losses of $4,304,000 and $7,832,000, respectively, due to net realized and unrealized gains and losses on contracts used to hedge balance sheet exposures.

Energy Derivative

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

As of the date of termination of the energy supply contract, the derivative valuation account reflected $19,922,000 of unrealized losses resulting from changes in the estimated fair value of the contract. The fair value of the contract was estimated at the time of termination based on market prices of electricity for the remaining period covered by the contract. The net differential between the contract price and estimated market prices for future periods was applied to the volume stipulated in the contract and discounted on a present value basis to arrive at the estimated fair value of the contract at the time of termination. The estimate was highly subjective because quoted market rates directly relevant to the Company's local energy market and for periods extending beyond a 10- to 12-month horizon were not quoted on a traded market. In making the estimate, the Company instead had to rely upon near-term market quotations and other market information to

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

determine an estimate of the fair value of the contract. In management's opinion, there are no available contract valuation methods that provide a reliable single measure of the fair value of the energy derivative because of the lack of quoted market rates directly relevant to the terms of the contract and because changes in subjective input assumptions can materially affect the fair value estimates. See Note 11 for a discussion of contingencies related to the termination of the Company's derivative energy supply contract.

14. Comprehensive Income

Comprehensive income is defined as all changes in a company's net assets except changes resulting from transactions with shareholders. It differs from net income in that certain items currently recorded to equity would be a part of comprehensive income. The following table sets forth the computation of comprehensive income for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income	$34,143	$37,142	$76,621	$67,836
Other comprehensive income:				
Foreign currency translation	2,468	4,975	2,485	3,903
Net unrealized gain on cash flow hedges, net of tax	453	(4,877)	1,120	(3,879)
Change in unrealized loss on marketable securities	—	—	92	—
Comprehensive income	$37,064	$37,240	$80,318	$67,860

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 the inside cover of this report.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

Allowance for Doubtful Accounts

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

Inventories

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

Long-Lived Assets

In the normal course of business, the Company acquires tangible and intangible assets. The Company periodically evaluates the recoverability of the carrying amount of its long-lived assets (including property, plant and equipment, goodwill and other intangible assets) whenever events or changes in circumstances

indicate that the carrying amount of an asset may not be fully recoverable. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairments are recognized in operating earnings. The Company uses its best judgment based on the most current facts and circumstances surrounding its business when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments, and the fair value of a potentially impaired asset. Changes in assumptions used could have a significant impact on the Company's assessment of recoverability.

Numerous factors, including changes in the Company's business, industry segment, and global economy, could significantly impact management's decision to retain, dispose of, or idle certain of its long-lived assets. For example, if the Company completes its announced acquisition of the Top-Flite Golf Company assets, the Company will initiate steps to consolidate its golf ball and golf club manufacturing and research and development operations. In connection with this consolidation of operations, the Company may decide to dispose of or idle certain of its long-lived assets, which could result in a write down of a significant portion of the assets used in the Company's golf ball operations. The Company previously announced that in connection with such consolidation, it estimates that it could incur charges to earnings of up to $70.0 million and the majority of the charges would be non-cash. These charges would relate to the write-down of assets, severance payments and other consolidation charges. For further discussion of the Top-Flite Golf Company assets acquisition see below "Liquidity — Golf Ball Operations."

As part of the Company's continuing review of its golf ball business, the Company evaluated and determined during the second quarter of 2003 that the undiscounted expected future cash flows derived from its golf ball assets exceeded the carrying value of such assets. If the Company were to change the manner in which it conducts its golf ball business or otherwise lower its estimates of the undiscounted cash flows it expects to derive from its golf ball assets, the Company could be required to assess impairment. Impairment is assessed by comparing the fair value of the golf ball assets against the carrying value of such assets. Such assessment could result in a write-down of a significant portion of such assets.

Warranty

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

Income Taxes

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

Results of Operations

Three-Month Periods Ended June 30, 2003 and 2002

Net sales decreased 4% to $242.1 million for the three months ended June 30, 2003 as compared to $252.5 million for the comparable period in the prior year. The overall decrease in net sales is primarily due to a $19.5 million (20%) decrease in sales of woods combined with an $8.1 million (34%) decrease in sales of golf balls. These decreases were partially offset by a $10.0 million (27%) increase in sales of putters, a $4.6 million (6%) increase in sales of irons, and a $2.6 million (15%) increase in sales of the Company's other products in the second quarter of 2003 as compared to the second quarter of 2002. The weakening of the U.S. dollar in relation to other foreign currencies during the second quarter of 2003 had a favorable impact on net sales. As compared to the second quarter of 2002, the strengthening of foreign currency exchange rates favorably impacted net sales for the second quarter of 2003 by approximately $7.5 million, as measured by applying 2002 exchange rates to 2003 net sales.

The Company believes that adverse economic conditions and continued economic uncertainty, particularly in the United States, Japan and other parts of Asia negatively affected its overall net sales during the second quarter of 2003. For example, unemployment in the United States is at a nine-year high, which has a negative impact on consumer spending on discretionary goods, including the Company's products. The Company also believes that its net sales for 2003 were negatively affected by a decrease in the number of golf rounds played due in part to unseasonably wet weather in the Eastern part of the United States. Golf Datatech has reported that the number of golf rounds played in the United States declined 4.1% during the second quarter of 2003, as compared to the same period in 2002.

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

	For the Three Months Ended June 30,		Growth (Decline)	
	2003	2002	Dollars	Percent
Net sales:				
Woods	$ 77.0	$ 96.5	$(19.5)	(20%)
Irons	83.0	78.4	4.6	6%
Putters	46.2	36.2	10.0	27%
Golf balls	15.6	23.7	(8.1)	(34%)
Accessories and other[(1)]	20.3	17.7	2.6	15%
	$242.1	$252.5	$(10.4)	(4%)

(1) Beginning with the first quarter of 2003, the Company records royalty revenue in net sales. Previously royalty revenue was recorded as a component of other income and prior periods have been reclassified to conform with the current year presentation.

The $19.5 million (20%) decrease in net sales of woods to $77.0 million represents a decrease in both unit and dollar sales. This decrease was primarily attributable to a decline in sales of Big Bertha Hawk Eye VFT Titanium Drivers and Fairway Woods, Big Bertha C4 Drivers, ERC II Forged Titanium Drivers and Fairway Woods and Big Bertha Steelhead III Drivers and Fairway Woods. This decline was expected as the Company's products generally sell better in their first year after introduction and 2003 is the third year in the life cycle for Big Bertha Hawk Eye VFT Titanium Drivers and Fairway Woods and ERC II Forged Titanium Drivers and is the second year in the life cycle for Big Bertha C4 Drivers, ERC II Forged Titanium Fairway Woods and Big Bertha Steelhead III Drivers and Fairway Woods. These decreases were partially offset by sales of Great Big Bertha II Drivers and Fairway Woods, which were launched during the fourth quarter of 2002. Great Big Bertha II Drivers and Fairway Woods have been very successful and sales of Great Big Bertha II Drivers and Fairway Woods exceeded the combined prior year sales of Big Bertha C4 Drivers and

Big Bertha Hawk Eye VFT Titanium Drivers and Fairway Woods. The sales of Great Big Bertha II Drivers and Fairway Woods, however, were not sufficient to offset the decline in other woods products.

The $4.6 million (6%) increase in net sales of irons to $83.0 million represents an increase in both unit and dollar sales. The sales growth was due primarily to the January 2003 launch of the Steelhead X-16 Stainless Steel Irons, including the Steelhead X-16 Pro Series line. This sales growth was partially offset by a decline in sales of Big Bertha Irons which were launched in January 2002, Hawkeye VFT irons which were launched in August 2001, and Steelhead X-14 Irons which were launched in October 2000.

The $10.0 million (27%) increase in net sales of putters to $46.2 million is attributable to increased sales of the Company's Odyssey putters primarily resulting from the continued success of the Odyssey White Hot 2-Ball Putter, which was introduced in January 2002.

The $8.1 million (34%) decrease in net sales of golf balls to $15.6 million represents a decrease in both unit and dollar sales. The decline in golf ball sales is primarily attributable to the lack of new product launches in 2003. During the second quarter of 2002, the Company experienced significant sales from the initial sell-in of golf balls related to the March 2002 launch of the HX golf ball. In addition, the Company believes that the continued decline in the number of golf rounds played in the United States negatively impacted sales of golf balls in the second quarter of 2003.

The $2.6 million (15%) increase in sales of accessories and other products is primarily attributable to the August 2002 launch of Callaway Golf Forged Wedges.

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

	For the Three Months Ended June 30,		Growth (Decline)	
	2003	2002	Dollars	Percent
Net sales:				
United States	$143.2	$143.9	$ (0.7)	(0%)
Europe	43.9	46.4	(2.5)	(5%)
Japan	21.4	25.4	(4.0)	(16%)
Rest of Asia	15.4	18.4	(3.0)	(16%)
Other foreign countries	18.2	18.4	(0.2)	(1%)
	$242.1	$252.5	$(10.4)	(4%)

Net sales in the United States decreased $0.7 million (less than 1%) to $143.2 million during the second quarter of 2003 versus the second quarter of 2002. Overall, the Company's sales in regions outside of the United States decreased $9.7 million (9%) to $98.9 million during the second quarter of 2003 versus the same quarter of 2002. As shown in the table above, the Company's sales decreased in all regions outside of the United States. The Company's net sales in regions outside of the United States were favorably affected by the strengthening of foreign currencies in relation to the U.S. dollar. Had exchange rates for the second quarter of 2003 been the same as the second quarter 2002 exchange rates, overall sales in regions outside of the United States would have been approximately $7.5 million lower than reported.

For the second quarter of 2003, gross profit decreased $11.3 million to $126.5 million from $137.8 million in the second quarter of 2002. Gross profit as a percentage of net sales decreased to 52% of net sales in the second quarter of 2003 from 55% in the comparable period of 2002. The Company's gross profit percentage was negatively impacted by lower sales of higher yielding woods, lower average selling prices, and declines in golf ball production volumes. These unfavorable impacts were partially offset by increased sales of higher yielding putters.

Selling expenses decreased $1.8 million (3%) in the second quarter of 2003 to $53.2 million from $55.0 million in the comparable period of 2002. As a percentage of sales, the expenses remained constant at 22%. The dollar decrease in expenses was primarily due to decreased employee costs of $2.2 million and promotional expenses of $1.8 million. These increases were partially offset by increases in advertising expenses of $1.7 million and depreciation and amortization expenses of $0.9 million.

General and administrative expenses decreased $0.4 million (2%) in the second quarter of 2003 to $14.6 million from $15.0 million in the second quarter of 2002. As a percentage of sales, the expenses remained constant at 6%. The dollar decrease resulted primarily from decreases in charitable contributions of $0.7 million and legal expenses of $0.4 million, substantially offset by an increase in the Company's deferred compensation liability of $1.0 million.

Research and development expenses decreased $2.2 million (26%) in the second quarter of 2003 to $6.2 million from $8.4 million in the comparable period of 2002. As a percentage of sales, the expenses remained constant at 3%. The dollar decrease resulted primarily from decreases in consulting fees of $0.6 million, employee costs of $0.3 million and depreciation and amortization expenses of $0.3 million.

Other income remained relatively constant at $1.5 million in the second quarter of 2003 as compared to other income of $1.4 million in the second quarter of 2002. The $0.1 million of additional other income is primarily attributable to a $1.0 million increase in gains on investments to fund the deferred compensation plan, offset by a $1.0 million increase in net losses on foreign currency transactions.

Six-Month Periods Ended June 30, 2003 and 2002

Net sales increased 1% to $513.8 million for the six months ended June 30, 2003 as compared to $509.2 million for the comparable period in the prior year. The overall increase in net sales is primarily due to a $29.2 million (47%) increase in sales of putters, a $17.4 million (11%) increase in sales of irons and a $7.1 million (19%) increase in sales of the Company's other products. These increases were partially offset by a $32.1 million (16%) decrease in sales of woods and a $17.0 million (37%) decrease in sales of golf balls in the first half of 2003 as compared to the first half of 2002. The weakening of the U.S. dollar in relation to other foreign currencies during the first half of 2003 had a significant favorable impact on net sales. As compared to the first half of 2002, the strengthening of foreign currency exchange rates favorably impacted net sales for the first half of 2003 by approximately $19.4 million, as measured by applying 2002 exchange rates to 2003 net sales.

The Company believes that its net sales during the first half of 2003 were positively affected by a strong product line and favorable foreign currency exchange rates. Conversely, the Company believes that its overall net sales during the first half of 2003 were negatively affected by adverse economic conditions and continued economic uncertainty, particularly in the United States, Japan and other parts of Asia. For example, unemployment in the United States is at a nine-year high, which has a negative impact on consumer spending on discretionary goods, including the Company's products. In addition, the Company believes that its net sales for 2003 were negatively affected by a decrease in the number of golf rounds played due in part to bad weather in much of the United States. Golf Datatech has reported that the number of golf rounds played in the United States during the first half of 2003 declined 3.5%, as compared to the same period in 2002.

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

	For the Six Months Ended June 30,		Growth (Decline)	
	2003	2002	Dollars	Percent
Net sales:				
Woods	$169.9	$202.0	$(32.1)	(16%)
Irons	179.2	161.8	17.4	11%
Putters	91.1	61.9	29.2	47%
Golf balls	29.3	46.3	(17.0)	(37%)
Accessories and other[1]	44.3	37.2	7.1	19%
	$513.8	$509.2	$ 4.6	1%

(1) Beginning with the first quarter of 2003, the Company records royalty revenue in net sales. Previously royalty revenue was recorded as a component of other income and prior periods have been reclassified to conform with the current year presentation.

The $32.1 million (16%) decrease in net sales of woods to $169.9 million represents a decrease in both unit and dollar sales. This decrease was primarily attributable to a decline in sales of Big Bertha Hawk Eye VFT Titanium Drivers and Fairway Woods, Big Bertha C4 Drivers, ERC II Forged Titanium Drivers and Fairway Woods and Big Bertha Steelhead III Drivers and Fairway Woods. This decline was expected as the Company's products generally sell better in their first year after introduction and 2003 is the third year in the life cycle for Big Bertha Hawk Eye VFT Titanium Drivers and Fairway Woods and ERC II Forged Titanium Drivers and is the second year in the life cycle for Big Bertha C4 Drivers, ERC II Forged Titanium Fairway Woods and Big Bertha Steelhead III Drivers and Fairway Woods. These decreases were partially offset by sales of Great Big Bertha II Drivers and Fairway Woods, which were launched during the fourth quarter of 2002. Great Big Bertha II Drivers and Fairway Woods have been very successful and sales of Great Big Bertha II Drivers and Fairway Woods exceeded the combined prior year sales of Big Bertha C4 Drivers, Big Bertha Hawk Eye VFT Titanium Drivers and Fairway Woods and ERC II Forged Titanium Drivers and Fairway Woods. The sales of Great Big Bertha II Drivers and Fairway Woods, however, were not sufficient to offset the decline in the other woods products.

The $17.4 million (11%) increase in net sales of irons to $179.2 million represents an increase in both unit and dollar sales. The sales growth was due primarily to the January 2003 launch of the Steelhead X-16 Stainless Steel Irons, including the Steelhead X-16 Pro Series line. This sales growth was partially offset by a decline in sales of Big Bertha Irons which were launched in January 2002, Hawkeye VFT irons which were launched in August 2001, and Steelhead X-14 Irons which were launched in October 2000.

The $29.2 million (47%) increase in net sales of putters to $91.1 million is attributable to increased sales of the Company's Odyssey putters primarily resulting from the continued success of the Odyssey White Hot 2-Ball Putter, which was introduced in January 2002.

The $17.0 million (37%) decrease in net sales of golf balls to $29.3 million represents a decrease in both unit and dollar sales. The decline in golf ball sales is primarily attributable to the lack of new product launches in 2003. During 2002, the Company experienced significant sales from the initial sell-in of golf balls related to the November 2001 launch of the CTU 30 golf ball and the March 2002 launch of the HX golf ball. In addition, the Company believes that the continued decline in the number of golf rounds played in the United States negatively impacted sales of golf balls in the first half of 2003.

The $7.1 million (19%) increase in sales of accessories and other products is primarily attributable to the August 2002 launch of Callaway Golf Forged Wedges.

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

	For the Six Months Ended June 30,		Growth (Decline)	
	2003	2002	Dollars	Percent
Net sales:				
United States	$292.5	$295.1	$(2.6)	(1%)
Europe	94.1	87.1	7.0	8%
Japan	54.5	56.8	(2.3)	(4%)
Rest of Asia	33.6	34.0	(0.4)	(1%)
Other foreign countries	39.1	36.2	2.9	8%
	$513.8	$509.2	$ 4.6	1%

Net sales in the United States decreased $2.6 million (1%) to $292.5 million during the first half of 2003 versus the first half of 2002. Overall, the Company's sales in regions outside of the United States increased $7.2 million (3%) to $221.3 million during the first half of 2003 versus the same period in 2002. As shown in the table above, the Company's sales increased in Europe and other foreign countries while sales decreased in Japan and rest of Asia. The Company's net sales in regions outside of the United States were favorably affected by the strengthening of foreign currencies in relation to the U.S. dollar. Had exchange rates for the

first half of 2003 been the same as the first half of 2002 exchange rates, overall sales in regions outside of the United States would have been approximately $19.4 million lower than reported.

For the six months ended June 30, 2003, gross profit decreased $2.2 million to $264.3 million from $266.5 million in the comparable period of 2002. Gross profit as a percentage of net sales decreased to 51% of net sales in the first six months of 2003 from 52% in the comparable period of 2002. The Company's gross profit percentage was negatively impacted by lower sales of higher yielding woods, lower average selling prices, and declines in golf ball production volumes. These unfavorable impacts were partially offset by increased sales of higher yielding putters combined with lower sales volumes of lower yielding golf balls.

Selling expenses decreased $10.2 million (9%) in the first half of 2003 to $102.1 million from $112.3 million in the comparable period of 2002, and were 20% and 22% of net sales, respectively. This decrease was primarily due to decreased advertising expenses of $5.7 million which is due in part to a shift in timing of expected advertising spending from the first quarter to the remaining quarters in the current year. Additional decreases include $3.0 million related to employee costs and $2.9 million related to other promotional expenses. These decreases were partially offset by increases in depreciation and amortization expenses of $2.1 million and tour expenses of $0.8 million.

General and administrative expenses remained relatively constant at $28.5 million in the first half of 2003, compared to $28.4 million in the first half of 2002. As a percentage of sales, the expenses also remained constant at 6%.

Research and development expenses decreased $3.4 million (21%) in the first half of 2003 to $12.9 million from $16.3 million in the comparable period of 2002. As a percentage of sales, the expenses remained constant at 3%. The dollar decrease resulted primarily from a $1.2 million decrease in consulting fees, a $0.6 million decrease in employee costs and a $0.5 million decrease in depreciation.

Other income totaled $0.3 million in the first half of 2003 as compared to other income of $1.0 million in the first half of 2002. The $0.7 million reduction in other income is primarily attributable to a $1.4 million increase in net losses on foreign currency transactions and a $0.5 million increase in interest expense due to the termination of the accounts receivable credit facility and the revolving credit facility (see Note 8 to the Consolidated Condensed Financial Statements). These decreases were partially offset by an increase of $1.3 million in gains on investments to fund the deferred compensation plan.

Financial Condition

Cash and cash equivalents increased $29.0 million (27%) to $137.5 million at June 30, 2003, from $108.5 million at December 31, 2002. The increase primarily resulted from cash provided by operating activities of $41.9 million, partially offset by cash used in financing and investing activities of $9.6 million and $3.8 million, respectively. Cash flows provided by operating activities reflect net income adjusted for depreciation and amortization of $96.9 million combined with a $34.0 million decrease in inventory and a $28.1 million increase in income taxes payable, partially offset by a $129.7 million increase in accounts receivable. Cash flows used in financing activities are primarily attributable to the $9.2 million payment of dividends and the $3.2 million acquisition of treasury stock, partially offset by $1.9 million of proceeds received from the exercise of employee stock options and $2.5 million of proceeds from purchases under the employee stock purchase plan.

During the first half of 2003, the Company's cash increased $29.0 million compared to a $7.8 million increase in cash during the first half of 2002. The Company's increase in cash in the current year was primarily attributable to a decrease in share repurchase activity combined with a decline in capital expenditures, partially offset by a decrease in stock option exercises and lower proceeds from the sale of marketable securities.

At June 30, 2003, the Company's net accounts receivable increased $132.7 million from December 31, 2002, which is consistent with seasonal trends (see below "Certain Factors Affecting Callaway Golf Company — Seasonality and Adverse Weather Conditions"). The Company's accounts receivable also increased $21.7 million over the Company's accounts receivable at June 30, 2002. This increase is primarily

attributable to higher sales later in the period ended June 2003 as compared to the timing of sales that occurred earlier in the comparable period of the prior year.

At June 30, 2003, the Company's net inventory decreased $32.1 million from December 31, 2002, which is consistent with seasonal trends (see below "Certain Factors Affecting Callaway Golf Company — Seasonality and Adverse Weather Conditions"). The Company's inventory also decreased $26.0 million as compared to June 30, 2002. This decrease is primarily attributable to the Company's concerted effort to reduce inventory and additional inventory reserves established on ERC II Drivers and Big Bertha C4 Drivers during the latter part of 2002.

Liquidity

Sources of Liquidity

The Company's principal sources of liquidity, both on a short-term and long-term basis, for the periods presented has generally been cash flows provided by operations. The Company currently expects this to continue. The Company, however, generally maintains a back-up credit facility to provide an additional source of liquidity. At June 30, 2003, the Company had a line of credit to borrow up to $50.0 million, in accordance with the terms and conditions of the credit agreement (the "BOA Agreement"). The BOA Agreement is scheduled to expire in June 2005 and there were no borrowings outstanding under the BOA Agreement at June 30, 2003.

Under the terms of the BOA Agreement, the Company is required to pay on a quarterly basis an unused commitment fee equal to 17.5 to 25.0 basis points of the unused commitment amount, with the exact amount determined based upon the Company's Consolidated Leverage Ratio. For purposes of the BOA Agreement, "Consolidated Leverage Ratio" means, as of any date of determination, the ratio of "Consolidated Funded Indebtedness" as of such date to "Consolidated EBITDA" for the four most recent fiscal quarters (as such terms are defined in the BOA Agreement). Outstanding borrowings under the BOA Agreement accrue interest at the Company's election at (i) the higher of (a) the Federal Funds Rate plus 50.0 basis points or (b) BOA's prime rate, and in either case less a margin of 50.0 to 100.0 basis points depending upon the Company's Consolidated Leverage Ratio or (ii) the Eurodollar Rate (as such term is defined in the BOA Agreement), plus a margin of 75.0 to 125.0 basis points depending upon the Company's Consolidated Leverage Ratio. The Company has agreed that repayment of amounts under the BOA Agreement will be guaranteed by certain of the Company's domestic subsidiaries and will be secured by the Company's pledge of 65% of the stock it holds in certain of its foreign subsidiaries and by certain intercompany debt securities and proceeds thereof.

The BOA Agreement requires the Company to maintain certain minimum financial covenants. Specifically, (i) the Company's Consolidated Leverage Ratio may not exceed 1.25 to 1.00 during any four consecutive fiscal quarters and (ii) Consolidated EBITDA for any four consecutive quarters may not be less than $50.0 million. The BOA Agreement also includes certain other restrictions, including restrictions limiting additional indebtedness, dividends, stock repurchases, transactions with affiliates, capital expenditures, asset sales, acquisitions, mergers, liens and encumbrances and other matters customarily restricted in loan documents. The BOA Agreement also contains other customary provisions, including affirmative covenants, representations and warranties and events of default. At June 30, 2003, the Company was in compliance with the covenants prescribed by the BOA Agreement.

Golf Ball Operations

The Company's golf ball operations are relatively new and through June 30, 2003 have not generated cash flows sufficient to fund these operations. Furthermore, the Company has not achieved the sales volume necessary for its golf ball business to be profitable. The Company has been pursuing actions to reduce and eliminate the losses in its golf ball business and, in June 2003, the Company announced that it had entered into an agreement with The Top-Flite Golf Company to purchase substantially all of the assets associated with Top-Flite's golf business. These assets include manufacturing facilities, the Top-Flite, Strata and Ben Hogan brands, and all U.S. and foreign golf-related patents and trademarks. The Top-Flite Golf Company, formerly

known as Spalding Sports Worldwide, manufactures both golf balls and golf clubs. The assets would be acquired free and clear of any existing debt and most other liabilities pursuant to a Chapter 11 petition filed by The Top-Flite Golf Company on June 30, 2003. The total price to be paid by Callaway Golf Company for the acquired assets under the terms of the agreement is approximately $125.0 million subject to certain adjustments. As part of the bankruptcy approval process, the bankruptcy court has approved the Company as the "stalking horse" bidder but the bankruptcy court will permit other bidders who meet certain qualifications the opportunity to submit higher and better bids than the Company's bid. Such other bids must provide for an aggregate purchase price of at least $1.0 million more than, and may not be on terms materially more burdensome or conditional than, the Company's bid. Some other firms, including some of the Company's competitors, have already expressed an interest in participating in the bidding process. If a third party submits a higher and better bid than the Company's bid, the Company would have the opportunity to increase its bid if it desired to do so. As a result of this process, it is possible that the Company ultimately will not consummate the purchase of the Top-Flite assets or that the amount the Company must pay for the assets will exceed its current bid of $125.0 million. See below "Certain Factors Affecting Callaway Golf Company — Top-Flite Golf Company Asset Acquisition."

Share Repurchases

In August 2001, the Company announced that its Board of Directors authorized it to repurchase shares of its Common Stock in the open market or in private transactions, subject to the Company's assessment of market conditions and buying opportunities from time to time, up to a maximum cost to the Company of $100.0 million. The Company began the repurchase program in August 2001 and during the second quarter of 2002 completed the program, which resulted in the repurchase of 5.8 million shares of the Company's Common Stock at an average cost of $17.11 per share for a total of $100.0 million. In May 2002, the Company announced that its Board of Directors authorized it to repurchase additional shares of its Common Stock in the open market or in private transactions, subject to the Company's assessment of market conditions and buying opportunities from time to time, up to a maximum cost to the Company of $50.0 million. Under this authorization, the Company has spent $34.2 million to repurchase 2.2 million shares of its Common Stock at an average cost of $15.25 per share through June 30, 2003. During the six months ended June 30, 2003, the Company spent a total of $3.2 million to repurchase 0.3 million shares under the May 2002 authorization at an average cost of $11.65 per share. As of June 30, 2003, the Company had $15.8 million of remaining authority under the May 2002 stock repurchase authorization.

Other Significant Cash Obligations

The following table provides, as of June 30, 2003, certain significant cash obligations 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	After 5 Years
Operating leases[1]	$11.6	$3.7	$4.6	$3.0	$0.3
Unconditional purchase obligations[2]	2.7	2.7	—	—	—
Deferred compensation[3]	7.9	0.7	1.4	0.4	5.4
Note payable[4]	1.6	1.6	—	—	—
Total[5]	$23.8	$8.7	$6.0	$3.4	$5.7

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

(2) The amounts presented in this line item reflect a purchase agreement for golf ball materials through 2003. As of June 30, 2003, there were no outstanding commitments to purchase golf club materials. In addition, in the normal course of operations, the Company enters into unconditional purchase obligations with various vendors and suppliers of goods and services through purchase orders or other documentation or are undocumented except for an invoice. Such obligations are generally outstanding for periods less than a year and are settled by cash payments upon delivery of goods and services and are not reflected in the total unconditional purchase obligations presented in this line item.

(3) The amounts presented in this line item represent the liability for the Company's unfunded, non-qualified deferred compensation plan. The plan allows officers, certain other employees and directors of the Company to defer all or part of their compensation, to be paid to the participants or their designated beneficiaries after retirement, death or separation from the Company. To support the deferred compensation plan, the Company has elected to purchase Company-owned life insurance. The cash surrender value of the Company-owned insurance related to deferred compensation is included in other assets and was $9.8 million at June 30, 2003.

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

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

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

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company's customers and licensees in connection with the use, sale and/or license of Company products, (ii) indemnities to various lessors in connection with facility leases for certain claims arising from such facilities or leases, (iii) indemnities to vendors and service providers pertaining to claims based on the negligence or willful misconduct of the Company, (iv) indemnities involving the accuracy of representations and warranties in certain contracts and (v) indemnities to directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware. In addition, the Company has made contractual commitments to several employees providing for severance payments upon the occurrence of certain prescribed events. The Company also has several consulting agreements that provide for payment of nominal fees upon the issuance of patents and/or the commercialization of research results. The Company has also issued a guarantee in the form of a standby letter of credit as security for contingent liabilities under certain workers compensation insurance policies. The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum amount of future payments the Company could be obligated to make. Historically, costs incurred to settle claims related to indemnities have not been material to the Company's financial position, results of operations or cash flows. In addition, the Company believes the likelihood is remote that material payments will be required under the commitments and guarantees described above. The fair value of indemnities, commitments and guarantees that the Company issued during the six months ended June 30, 2003 were 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 below "Part II, Item I — Legal Proceedings."

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 credit facility, will be sufficient to finance current operating requirements, including the potential acquisition of the Top-Flite Golf Company assets, planned capital expenditures, contractual obligations and commercial commitments, for the next twelve months. There can be no assurance, however, that future industry specific or other developments, general economic trends or other matters will not adversely affect the Company's operations or its ability to meet its future cash requirements (see below "Certain Factors Affecting Callaway Golf Company").

Supply of Electricity and Energy Contracts

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

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

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

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

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

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

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

The Company believes the Enron Contract has been terminated, and as of August 5, 2003, EESI has not asserted any claim against the Company. There can be no assurance, however, that EESI or another party will not assert a future claim against the Company or that a bankruptcy court or arbitrator will not ultimately nullify the Company's termination of the Enron Contract. No provision has been made for contingencies or obligations, if any, under the Enron Contract beyond November 30, 2001.

Certain Factors Affecting Callaway Golf Company

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

Top-Flite Golf Company Asset Acquisition

The Company previously announced that it entered into an agreement with The Top-Flite Golf Company to purchase substantially all of the assets associated with Top-Flite's golf business, including its manufacturing facilities, the Top-Flite, Strata and Ben Hogan brands, and all U.S. and foreign golf-related patents and trademarks. The Company faces certain risks associated with entering into such an agreement.

There is no assurance that the Company will successfully complete the acquisition. As previously announced by the Company, the acquisition is subject to certain contingencies, including the approval by the United States Bankruptcy Court in Wilmington, Delaware. Further, as part of the bankruptcy approval process, the bankruptcy court has approved the Company as the "stalking horse" bidder but the bankruptcy court will permit other bidders who meet certain qualifications the opportunity to submit higher and better bids than the Company's bid. Such other bids must provide for an aggregate purchase price of at least $1.0 million more than, and may not be on terms materially more burdensome or conditional than, the Company's bid. Some other firms, including some of the Company's competitors, have already expressed an interest in participating in the bidding process. If a third party submits a higher and better bid than the Company's bid, the Company would have the opportunity to increase its bid if it desired to do so. As a result of this process, it is possible that the Company ultimately will not consummate the purchase of the Top-Flite assets or that the amount the Company must pay for the assets will exceed its current bid of $125.0 million.

If the Company does not successfully complete the acquisition, the Company would have to pursue other alternatives to eliminate the losses in its golf ball business. It is possible the Company could forgo other opportunities for its golf ball business while it is pursuing the acquisition. Furthermore, the failure to complete the acquisition could cause confusion surrounding the Company's golf ball business among customers, suppliers and employees, which could have an adverse impact upon the Company's golf ball business and results of operations.

On the other hand, the Company may complete the acquisition, in which case the Company would face many challenges in trying to reverse the decline of the Top-Flite brand in the marketplace and in trying to consolidate the golf ball manufacturing operations to eliminate the losses in the Company's golf ball operations. Some of these challenges include challenges relating to the (i) retention of Top-Flite key employees, (ii) negotiating new labor agreements in a timely fashion, (iii) maintaining good vendor relationships, particularly if the Top-Flite vendors are not paid in full in the bankruptcy proceedings, (iv) the difficulties in integrating the Top-Flite brands with the Callaway Golf Company brands and (v) the employee and other issues inherent in any consolidation. Furthermore, the acquisition, integration and consolidation of the acquired assets will require a considerable amount of time and attention of senior management and others, which could have an adverse effect upon the Company's club business.

In addition, if the Company is successful in completing the acquisition, the Company could incur significant charges to earnings in connection with the consolidation of operations. The Company previously announced that it estimated such charges could be up to $70.0 million and the majority of these charges would be non-cash.

Finally, the Company will be spending a considerable amount of cash to acquire the Top-Flite Golf Company assets and there is no assurance that the Company will realize a satisfactory return on its investment.

Terrorist Activity and Armed Conflict

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

Adverse Global Economic Conditions

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

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

Foreign Currency Risk

Almost half of the Company's sales are international sales. As a result, the Company conducts transactions in approximately 12 currencies worldwide. Conducting business in such various currencies increases the Company's exposure to fluctuations in foreign currency exchange rates relative to the U.S. dollar. Changes in exchange rates may positively or negatively affect the Company's financial results. Overall, the Company is generally negatively affected by a stronger U.S. dollar in relation to the foreign currencies in which the Company conducts business. Conversely, overall, the Company is generally positively affected by a weaker U.S. dollar relative to such foreign currencies. For the effect of foreign currencies on the Company's financial results for the current reporting periods, see above "Results of Operations."

The effects of foreign currency fluctuations can be significant. The Company therefore engages in certain hedging activities to mitigate the impact of foreign currency fluctuations over time on the Company's financial results. The Company's hedging activities reduce, but do not eliminate, the effects of such foreign currency

fluctuations. Factors that could affect the effectiveness of the Company's hedging activities include accuracy of sales forecasts, volatility of currency markets and the availability of hedging instruments. Since the hedging activities are designed to reduce volatility, they not only reduce the negative impact of a stronger U.S. dollar but they also reduce the positive impact of a weaker U.S. dollar. For the effect of the Company's hedging activities during the current reporting periods, see below "Quantitative and Qualitative Disclosures about Market Risk."

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

Growth Opportunities

Golf Clubs. In order for the Company to significantly grow its sales of golf clubs, the Company must either increase its share of the market for golf clubs or the market for golf clubs must grow. The Company already has a significant share of the worldwide premium golf club market and therefore opportunities for additional market share may be limited. The Company does not believe there has been any material increase in the number of golfers in the United States in 2000, 2001 or 2002. Golf Datatech has reported that during the first half of 2003 the number of golf rounds played in the United States declined 3.5%, as compared to the same period in 2002, and that rounds played have decreased each year since at least 1999. Furthermore, the Company believes that since 1997 the overall worldwide premium golf club market has generally not experienced substantial growth in dollar volume from year to year. There is no assurance that the overall dollar volume of the worldwide premium golf club market will grow, or that it will not decline, in the future.

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

Golf Ball Costs

The cost of entering the golf ball business has been significant. The cost of competing in the golf ball business has also been significant and has required significant investment in advertising, tour and promotion. To date, the development of the Company's golf ball business has had a significant negative impact on the Company's cash flows, financial position and results of operations. As presently structured, the Company will need to produce and sell golf balls in large volumes to cover its costs and become profitable. There is no assurance that the Company will be able to achieve the sales volume necessary to make its golf ball business profitable. Until the golf ball business becomes profitable, the Company's results of operations, cash flows and financial position will continue to be negatively affected. The Company has been pursuing actions to reduce and eliminate the losses in its golf ball business and, in June 2003, the Company announced that it had entered into an agreement with The Top-Flite Golf Company to purchase substantially all of the assets associated with Top-Flite's golf business. These actions could result in a write-down of a significant portion of the assets used in the Company's golf ball operations (see also above "Critical Accounting Policies and Estimates — Long-Lived Assets" and "Liquidity — Golf Ball Operations").

Manufacturing Capacity

The Company plans its manufacturing capacity based upon the forecasted demand for its products. Actual demand for such products may exceed or be less than forecasted demand. The Company's unique

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

Dependence on Energy Resources

The Company's golf club and golf ball manufacturing facilities use, among other resources, significant quantities of electricity to operate. In 2001, some companies in California, including the Company, experienced periods of blackouts during which electricity was not available. The Company has taken certain steps to provide access to alternative power supplies for certain of its operations, and believes that these measures could mitigate any impact resulting from possible future blackouts. The Company is currently purchasing wholesale energy through the Company's energy service provider under short-term contracts. From time to time, legislation has been introduced that would restrict the Company's ability to purchase wholesale energy through its energy service provider. If passed, the Company may be required to purchase energy from the local public utility, which could cause the Company's cost of energy to increase. If the Company's costs of energy were to increase as a result of such legislation or otherwise, the Company's results of operations would be adversely affected.

Dependence on Certain Suppliers and Materials

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

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

The Company's size has made it a large consumer of certain materials, including titanium alloys and carbon fiber. The Company does not make these materials itself, and must rely on its ability to obtain

adequate supplies in the world marketplace in competition with other users of such materials. While the Company has been successful in obtaining its requirements for such materials thus far, there can be no assurance that it always will be able to do so. An interruption in the supply of the materials used by the Company or a significant change in costs could have a material adverse effect on the Company.

Competition

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

Golf Balls. The premium golf ball business is also highly competitive and may be becoming even more competitive. There are a number of well-established and well-financed competitors, including one competitor with an estimated market share in excess of 50% of the premium golf ball business. Furthermore, worldwide sales of golf balls have been declining due to declines in the number of golf rounds played and other factors, resulting in a surplus of worldwide golf ball manufacturing capacity. As competition in this business increases, many of these competitors are substantially discounting the prices of their products and/or increasing advertising, tour or other promotional support. This increased competition has resulted in significant expenses in both tour and advertising support and product development. In order for its golf ball business to be successful, the Company will need to penetrate the market share held by existing competitors, while competing with new entrants, and must do so at prices and costs that are profitable. There can be no assurance that the Company's golf balls will obtain the market acceptance or profitability necessary to be commercially successful (see also above "Critical Accounting Policies and Estimates — Long-Lived Assets" and "Liquidity — Golf Ball Operations").

Market Acceptance of Products

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

New Product Introduction and Product Cyclicality

The Company believes that the introduction of new, innovative golf clubs and golf balls is important to its future success. A major portion of the Company's revenues is generated by products that are less than two years old. The Company faces certain risks associated with such a strategy. For example, in the golf industry,

new models and basic design changes in golf equipment are frequently met with consumer rejection. In addition, prior successful designs may be rendered obsolete within a relatively short period of time as new products are introduced into the marketplace. Further, any new products that retail at a lower price than prior products may negatively impact the Company's revenues unless unit sales increase. The rapid introduction of new golf club or golf ball products by the Company could result in close-outs of existing inventories at both the wholesale and retail levels. Such close-outs can result in reduced margins on the sale of older products, as well as reduced sales of new products, given the availability of older products at lower prices.

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

Seasonality and Adverse Weather Conditions

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

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

Conformance with the Rules of Golf

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

All of the Company's current products (including the new Great Big Bertha II Titanium Drivers), with the exception of the Great Big Bertha II+ Titanium Drivers, are believed to be "conforming" under the Rules of Golf as published by the USGA. All of the Company's current products are believed to be conforming to the existing Rules of Golf as published by the R&A. However, effective January 1, 2003 the Company's Great Big Bertha II+ Titanium Drivers is not conforming in certain competitions involving highly skilled golfers and effective January 1, 2008 such drivers will not be conforming under the generally applicable Rules of Golf as

published by the R&A. These new R&A restrictions could affect current and future sales of such drivers in R&A jurisdictions, including jurisdictions in which the Company previously sold such products and in which there previously were no R&A restrictions. The Company also believes that the general confusion created by the USGA as to what is a conforming or non-conforming driver has hurt sales of its drivers generally.

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

Golf Professional Endorsements

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

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

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

Intellectual Property and Proprietary Rights

The golf club industry, in general, has been characterized by widespread imitation of popular club designs. The Company has an active program of enforcing its proprietary rights against companies and

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

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

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

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

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

Brand Licensing

The Company licenses its trademarks to third party licensees who produce, market and sell their products bearing the Company's trademarks. The Company chooses its licensees carefully and imposes upon such licensees various restrictions on the products, and on the manner, on which such trademarks may be used. Despite these restrictions, or if a licensee fails to adhere to these restrictions, the Company's brand could be damaged by the use or misuse of the Company's trademarks in connection with its licensees' products.

Product Returns

Golf Clubs. The Company supports all of its golf clubs with a limited two year written warranty. Since the Company does not rely upon traditional designs in the development of its golf clubs, its products may be more likely to develop unanticipated problems than those of many of its competitors that use traditional

designs. For example, clubs have been returned with cracked clubheads, broken graphite shafts and loose medallions. While any breakage or warranty problems are deemed significant to the Company, the incidence of defective clubs returned to date has not been material in relation to the volume of clubs that have been sold.

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

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

"Gray Market" Distribution

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

International Risks

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

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

Credit Risk

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

Information Systems

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

Item 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 credit-worthy firms. The use of these instruments exposes the Company to market and credit risk which may at times be concentrated with certain counterparties, although counterparty nonperformance is not anticipated. The Company also utilized a derivative commodity instrument, the Enron Contract, to manage electricity costs in the volatile California energy market during the period of June 2001 through November 2001. Pursuant to its terms, the Enron Contract was terminated. The Company is also exposed to interest rate risk from its credit facility.

Foreign Currency Fluctuations

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

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

The Company enters into foreign exchange contracts to hedge against exposure to changes in foreign currency exchange rates. Such contracts are designated at inception to the related foreign currency exposures being hedged, which include anticipated intercompany sales of inventory denominated in foreign currencies, payments due on intercompany transactions from certain wholly-owned foreign subsidiaries, and anticipated

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

At June 30, 2003 and 2002, the notional amounts of the Company's foreign exchange contracts were approximately $87.7 million and $137.8 million, respectively. The Company estimates the fair values of derivatives based on quoted market prices or pricing models using current market rates, and records all derivatives on the balance sheet at fair value. At June 30, 2003, the fair values of foreign currency-related derivatives were recorded as current assets of $0.6 million and current liabilities of $1.3 million.

At June 30, 2003 and 2002, the notional amounts of the Company's foreign exchange contracts designated as cash flow hedges were approximately $22.9 million and $42.0 million, respectively. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is initially recorded in accumulated other comprehensive income ("OCI") as a separate component of shareholders' equity and subsequently reclassified into earnings in the period during which the hedged transaction is recognized in earnings. During the three and six months ended June 30, 2003 and 2002, the Company recorded the following activity in OCI (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Beginning OCI balance related to cash flow hedges	$(1.5)	$ 7.4	$(1.4)	$ 6.4
Add: Net gain/(loss) initially recorded in OCI	(0.2)	(4.5)	(1.3)	(3.0)
Deduct: Net gain/(loss) reclassified from OCI into earnings	(1.1)	2.6	(2.1)	3.1
Ending OCI balance related to cash flow hedges	$(0.6)	$ 0.3	$(0.6)	$ 0.3

During the three and six months ended June 30, 2003, no gains were reclassified into earnings as a result of the discontinuance of cash flow hedges. During the three and six months ended June 30, 2002, $0.2 million of gains were reclassified into earnings as a result of the discontinuance of cash flow hedges.

As of June 30, 2003, $0.6 million of deferred net losses related to derivative instruments designated as cash flow hedges were included in OCI. These derivative instruments hedge transactions that are expected to occur within the next twelve months. As the hedged transactions are completed, the related deferred net gain or loss is reclassified from OCI into earnings. The Company does not expect that such reclassifications would have a material effect on the Company's earnings, as any gain or loss on the derivative instruments generally would be offset by the opposite effect on the related underlying transactions.

The ineffective portion of the gain or loss for derivative instruments that are designated and qualify as cash flow hedges is immediately reported as a component of other income (expense), net. For foreign currency contracts designated as cash flow hedges, hedge effectiveness is measured using the spot rate. Changes in the spot-forward differential are excluded from the test of hedging effectiveness and are recorded currently in earnings as a component of other income (expense), net. During the three months ended June 30, 2003 and 2002, the Company recorded net gains of less than $0.1 million and net gains of $0.6 million, respectively, as a result of changes in the spot-forward differential. During the six months ended June 30, 2003 and 2002, the Company recorded net losses of $0.1 million and net gains of $0.7 million, respectively, as a result of changes in the spot-forward differential. Assessments of hedge effectiveness are performed using the dollar offset method and applying a hedge effectiveness ratio between 80% and 125%. Given that both the

hedged item and the hedging instrument are evaluated using the same spot rate, the Company anticipates the hedges to be highly effective. The effectiveness of each derivative is assessed quarterly.

At June 30, 2003 and 2002, the notional amounts of the Company's foreign exchange contracts used to hedge outstanding balance sheet exposures were approximately $64.8 million and $95.8 million, respectively. The gains and losses on foreign currency contracts used to hedge balance sheet exposures are recognized as a component of other income (expense), net in the same period as the remeasurement gain and loss of the related foreign currency denominated assets and liabilities and thus offset these gains and losses. During the three months ended June 30, 2003 and 2002, the Company recorded net losses of $3.5 million and $7.6 million, respectively, due to net realized and unrealized gains and losses on contracts used to hedge balance sheet exposures. During the six months ended June 30, 2003 and 2002, the Company recorded net losses of $4.3 million and $7.8 million, respectively, due to net realized and unrealized gains and losses on contracts used to hedge balance sheet exposures.

Sensitivity analysis is the measurement of potential loss in future earnings of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates or foreign currency values. The Company used a sensitivity analysis model to quantify the estimated potential effect of unfavorable movements of 10% in foreign currencies to which the Company was exposed at June 30, 2003 through its derivative financial instruments.

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

The estimated maximum one-day loss from the Company's foreign-currency derivative financial instruments, calculated using the sensitivity analysis model described above, is $8.7 million at June 30, 2003. The portion of the estimated loss associated with the foreign exchange contracts that offset the remeasurement gain and loss of the related foreign currency denominated assets and liabilities is $6.9 million at June 30, 2003 and would impact earnings. The remaining $1.8 million of the estimated loss at June 30, 2003 is derived from outstanding foreign exchange contracts designated as cash flow hedges and would initially impact OCI. The Company believes that such a hypothetical loss from its derivatives would be offset by increases in the value of the underlying transactions being hedged.

Electricity Price Fluctuations

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

Interest Rate Fluctuations

Additionally, the Company is exposed to interest rate risk from its BOA Agreement (see Note 8 to the Company's Consolidated Condensed Financial Statements) which is indexed to, at the Company's election,

(i) the higher of (a) the Federal Funds Rate plus 50.0 basis points or (b) BOA's prime rate, and in either case less a margin of 50.0 to 100.0 basis points depending upon the Company's Consolidated Leverage Ratio or (ii) the Eurodollar Rate (as such term is defined in the BOA Agreement), plus a margin of 75.0 to 125.0 basis points depending upon the Company's Consolidated Leverage Ratio. No amounts were outstanding under this facility at June 30, 2003.

Note 8 to the Company's Consolidated Condensed Financial Statements outlines the principal amounts, if any, and other terms required to evaluate the expected cash flows and sensitivity to interest rate changes.

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

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

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

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

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

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

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

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

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

On December 2, 2002, Callaway Golf Company was served with a complaint filed in the Circuit Court of the 19th Judicial District in and for Martin County, Florida, Case No. 935CA, by the Perfect Putter Co. and certain principals of the Perfect Putter Co. Plaintiffs have sued Callaway Golf Company, Callaway Golf Sales Company and a Callaway Golf Sales Company sales representative. Plaintiffs allege that the Company misappropriated certain alleged trade secrets of the Perfect Putter Co. and incorporated those purported trade secrets in the Company's Odyssey White Hot 2-Ball Putter. Plaintiffs also allege that the Company made false statements and acted inappropriately during discussions with plaintiffs. Plaintiffs are seeking compensatory damages, exemplary damages, attorneys fees and costs, pre- and post-judgment interest and injunctive relief. On December 20, 2002, Callaway Golf removed the case to the United States District Court for the Southern District of Florida, Case No. 02-14342. On April 29, 2003, the District Court denied plaintiffs' motion to remand the case to state court, holding that the sales representative had been "fraudulently joined" solely for the purpose of defeating diversity jurisdiction. The parties are currently engaged in discovery. The trial of the action has been set to commence in the fall of 2004.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims, including the matters specifically noted above. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to estimate the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of June 30, 2003. Except as discussed above with regard to the MaxFli litigation, management believes at this time that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's consolidated annual results of operations or cash flows, or financial position.

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

None

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

None

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

On June 10, 2003, the Company held its 2003 Annual Meeting of Shareholders. Ronald A. Drapeau, Samuel H. Armacost, William C. Baker, Ronald S. Beard, John C. Cushman, III, Yotaro Kobayashi and Richard L. Rosenfield were elected to the Board of Directors.

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

Name	Votes For	Votes Withheld
Ronald A. Drapeau	67,180,637	1,302,444
Samuel H. Armacost	67,806,421	676,660
William C. Baker	65,143,788	3,339,293
Ronald S. Beard	65,069,840	3,413,241
John C. Cushman, III	67,780,188	702,893
Yotaro Kobayashi	67,799,021	684,060
Richard L. Rosenfield	65,152,625	3,330,456

Item 5. ***Other Information***

None

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

a. *Exhibits*

3.1 Certificate of Incorporation, incorporated herein by this reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission ("Commission") on July 1, 1999 (file no. 1-10962).

3.2 Second Amended and Restated Bylaws, as amended and restated as of February 27, 2003, incorporated herein by this reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the Commission on March 17, 2003 (file no. 1-10962).

4.1 Dividend Reinvestment and Stock Purchase Plan, incorporated herein by this reference to the Prospectus in the Company's Registration Statement on Form S-3, as filed with the Commission on March 29, 1994 (file no. 33-77024).

4.2 Rights Agreement by and between the Company and Mellon Investor Services LLC (f/k/a Chemical Mellon Shareholder Services) as Rights Agent, dated as of June 21, 1995, incorporated herein by this reference to Exhibit 4.0 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, as filed with the Commission on August 12, 1995 (file no. 1-10962).

4.3 First Amendment to Rights Agreement, effective June 22, 2001, by and between Callaway Golf Company and Mellon Investor Services, LLC, incorporated herein by this reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 as filed with the Commission on March 21, 2002 (file no. 1-10962).

4.4 Certificate of Determination of Rights, Preferences, Privileges and Restrictions of Series A Junior Participating Preferred Stock, incorporated herein by this reference to Exhibit 3.1.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, as filed with the Commission on August 12, 1995 (file no. 1-10962).

10.54	Asset Purchase Agreement between The Top-Flite Golf Company (f/k/a Spalding Sports Worldwide, Inc.) and the Company, dated as of June 30, 2003.(†)
10.55	Credit Agreement, dated as of June 16, 2003, between the Company and Bank of America, N.A., incorporated herein by this reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, dated June 16, 2003, as filed with the Commission on June 17, 2003 (file no. 1-10962).
10.56	Pledge Agreement, dated as of June 16, 2003, between the Company and Bank of America, N.A.(†)
10.57	Indemnification Agreement between the Company and Samuel H. Armacost dated as of April 21, 2003.(†)
10.58	Indemnification Agreement between the Company and John C. Cushman, III dated as of April 21, 2003.(†)
31.1	Certification of Ronald A. Drapeau 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 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(†)

(†) Included with this Report.

b. *Reports on Form 8-K*

Form 8-K, dated July 23, 2003, reporting the issuance of a press release of even date therewith, which press release was captioned, "Bankruptcy Court Approves Initial Bid by Callaway Golf to Buy Top-Flite Assets; Schedule Set for Other Bids and Sale."

Form 8-K, dated July 17, 2003, reporting the issuance of a press release of even date therewith, which press release was captioned, "Callaway Golf Announces Record Six Months' Net Income and EPS; Increases EPS Guidance for 2003."

Form 8-K, dated June 30, 2003, reporting the acquisition of the assets of The Top-Flite Golf Company, including the Top-Flite, Strata and Ben Hogan brands, captioned "Callaway Golf Announces Acquisition of Top-Flite."

Form 8-K, dated June 16, 2003, reporting the Credit Agreement between Callaway Golf Company and Bank of America, N.A.

Form 8-K, dated April 23, 2003, reporting the issuance of a press release of even date therewith, which press release was captioned, "Callaway Golf Exceeds Estimates with First Quarter Results; Estimates for the Year Remain Unchanged."

SIGNATURES

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

CALLAWAY GOLF COMPANY

By: /s/ BRADLEY J. HOLIDAY

Bradley J. Holiday
Executive Vice President and
Chief Financial Officer

Date: August 5, 2003

Table of Contents

EXHIBIT INDEX

Exhibit	Description
10.54	Asset Purchase Agreement between The Top-Flite Golf Company (f/k/a Spalding Sports Worldwide, Inc.) the Company, dated as of June 30, 2003.
10.56	Pledge Agreement, dated as of June 16, 2003, between the Company and Bank of America, N.A.
10.57	Indemnification Agreement between the Company and Samuel H. Armacost dated as of April 21, 2003.
10.58	Indemnification Agreement between the Company and John C. Cushman, III dated as of April 21, 2003.
31.1	Certification of Ronald A. Drapeau 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 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 10.54

ASSET PURCHASE AGREEMENT

BETWEEN

THE TOP-FLITE GOLF COMPANY
(f/k/a SPALDING SPORTS WORLDWIDE, INC.)

AND

CALLAWAY GOLF COMPANY

DATED AS OF JUNE 30, 2003

TABLE OF CONTENTS

SCHEDULES

ASSET PURCHASE AGREEMENT, dated as of June 30, 2003 (the "Agreement"), by and among The Top-Flite Golf Company (f/k/a Spalding Sports Worldwide, Inc.), a Delaware corporation (the "Seller"), and Callaway Golf Company or its permitted assign (the "Purchaser"). Other capitalized terms used herein shall have the respective meanings ascribed to them in Section 9.1(a).

W I T N E S S E T H:

WHEREAS, the Seller and its Subsidiaries, among other things, engage in the business of manufacturing, marketing, distributing, and selling golf balls and golf related goods, as more specifically set forth herein;

WHEREAS, the Purchaser desires to purchase certain assets of the Seller and to assume certain liabilities of the Seller, and the Seller desires to sell such assets to the Purchaser and to assign such liabilities to the Purchaser, all on the terms and conditions set forth in this Agreement and in accordance with Sections 105, 363 and 365 of Title 11 of the United States Code (as in effect for cases filed on the Petition Date, the "Bankruptcy Code") and other applicable provisions of the Bankruptcy Code (the "Acquisition");

WHEREAS, on the date hereof (the "Petition Date"), immediately prior to the execution and delivery of this Agreement, the Seller and Lisco Sports, Inc. have filed a voluntary bankruptcy petition (the "Bankruptcy Case") with the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court");

WHEREAS, it is contemplated that the Assets will be sold pursuant to an order of the Bankruptcy Court approving such sale under Section 363 of the Bankruptcy Code, and such sale will include the assumption by the Purchaser of the Assumed Contracts under Section 365 of the Bankruptcy Code, and the terms and conditions of this Agreement; and

WHEREAS, the Seller desires to sell the Assets and to assign the Assumed Contracts to further its reorganization efforts and to enable it to consummate a plan of reorganization in the Bankruptcy Case.

NOW, THEREFORE, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the parties hereto agree as follows:

1. Purchase and Sale.

1.1 Assets to Be Transferred. On the terms and subject to the conditions set forth in this Agreement, at the Closing, the Seller shall sell, assign, transfer, convey and deliver (or cause to be transferred, sold, assigned, conveyed and delivered) to the Purchaser or its designated permitted assigns, and the Purchaser or its designated permitted assigns shall purchase and assume from the Seller, all of the Seller's right, title and interest in and to all of the Seller's properties, assets, and rights of every nature, kind

and description, tangible and intangible (including goodwill) used by the Seller in the conduct of the Business, wherever such properties, assets and rights are located, whether real, personal or mixed, whether accrued, contingent or otherwise, other than the Excluded Assets (such rights, title and interests in and to all such assets, properties and claims being collectively referred to herein as the "Assets"), in accordance with, and with all of the protections afforded by, Sections 363 and 365 of the Bankruptcy Code. Subject to, and only as expressly limited by, Section 1.2, the Assets shall include all of the Seller's right, title, and interest in and to the assets, properties, rights and claims described in clauses (a) through (m) below:

(a) the Subsidiary Assets;

(b) all Assumed Contracts;

(c) all Intellectual Property;

(d) all Assigned Current Receivables;

(e) all Assigned Inventory;

(f) all Equipment;

(g) all Prepaid Expenses;

(h) all Books and Records;

(i) all Permits;

(j) all of the Assigned Sporting Goods Rights;

(k) all telephone numbers, addresses (including electronic mail addresses) used by the Seller or the Subsidiaries primarily in connection with the operation or conduct of the Business;

(l) all goodwill arising primarily in connection with the ownership, operation or conduct of the Assets and the Business; and

(m) all other property and assets of the Business, moveable and immoveable, real and personal, tangible or intangible, of every kind and description and wheresoever situated, including the full benefit of all representations, warranties, guarantees, indemnities, undertakings, certificates, covenants, agreements and all security therefor received by the Seller on the purchase or other acquisition of any part of the Assets.

1.2 Excluded Assets. Notwithstanding anything to the contrary contained in this Agreement, the following assets, properties and rights (collectively, the "Excluded Assets") shall not be included in the Assets and shall be retained by the Seller:

(a) any cash, bank deposits and cash equivalents;

(b) all Excluded Inventory;

(c) all Excluded Equipment;

(d) all Excluded Permits;

(e) all Excluded Contracts;

(f) all Excluded Intellectual Property;

(g) the Excluded Information;

(h) the Excluded Securities;

(i) all Retained Receivables and all causes of action relating or pertaining to such Retained Receivables;

(j) any insurance proceeds or other rights of the Seller under insurance policies of the Seller with respect to Claims made in respect of, and to the extent attributable to, the Business;

(k) all rights under all warranties, representations, and guarantees made by suppliers, manufacturers and contractors primarily in connection with the ownership, operation or conduct of the Excluded Operations;

(l) all telephone numbers, addresses (including electronic mail addresses) used primarily in connection with the operation or conduct of the Excluded Operations;

(m) all goodwill arising primarily in connection with the ownership, operation or conduct of the Excluded Operations;

(n) all of the Excluded ETONIC Rights and Excluded Sporting Goods Rights;

(o) any rights to refunds, rebates, abatements or other refunds of any Taxes with respect to any Subsidiary, the Assets or the Business;

(p) the Subsidiary Stock; and

(q) all of the rights and claims of the Seller for avoidance actions available to the Seller under the Bankruptcy Code, of whatever kind or nature, as set forth in Sections 544 through 551 and any other applicable provisions of the Bankruptcy Code, and any related claims and actions arising under such sections by operation of law or otherwise, including any and all proceeds of the foregoing.

1.3 Assumed Liabilities. At the Closing, the Purchaser shall assume no liability or obligation of the Seller except with respect to the Liabilities expressly set forth in this Section 1.3 (the "Assumed Liabilities"), which the Purchaser shall pay, perform and discharge in accordance with their terms (whether fixed or contingent, matured or unmatured, arising by law or by Contract or otherwise), subject to any defenses or claimed offsets asserted in good faith against the obligee to whom such liabilities or obligations are owed:

(a) all Liabilities resulting from the ownership, use, operation or maintenance of the Assets or the conduct of the Business by the Purchaser after the Closing;

(b) all Liabilities under the Assumed Contracts arising after the Closing Date;

(c) all Liabilities related to the Purchaser's employment of the Transferred Employees after the Closing Date;

(d) all Liabilities associated with the Intellectual Property arising after the Closing Date; and

(e) all of the Assumed Sporting Goods Obligations.

1.4 Excluded Liabilities. Notwithstanding anything to the contrary contained in this Agreement, the parties expressly acknowledge and agree that the Purchaser shall not assume or in any manner whatsoever be liable or responsible for any Liability of the Seller, or any predecessors or Affiliates of the Seller, or any of their Representatives or any Claim against any and all of the foregoing, whether matured or unmatured, known or unknown, contingent or absolute, direct or indirect, whensoever incurred, whether or not related to the Business, other than Assumed Liabilities. All such Liabilities other than Assumed Liabilities are collectively referred to as the "Excluded Liabilities."

1.5 Purchase Price; Allocation of Purchase Price.

(a) Subject to the terms and conditions hereof, in reliance upon the representations and warranties of the Seller and the covenants of the Seller herein set forth, and as consideration for the sale and purchase of the Assets, at the Closing, the Purchaser shall assume the Assumed Liabilities and shall tender the Purchase Price. On the Closing Date, the "Purchase Price" shall be the sum of: (i) the Closing Cash Payment (defined in subparagraph (b) below); plus (ii) the Indemnity Deposit; plus (iii) the Current Receivables Deposit; plus (iv) the aggregate Straddle Period Accruals; plus (v) the Signing Bonuses. The Purchase Price shall be adjusted after the Closing Date if, and to the extent, that (x) the Purchaser is required to remit to the Seller an amount in cash pursuant to Section 1.6(d) or (y) the Purchaser is entitled to an amount in cash from the Current Receivables Deposit pursuant to Section 1.6(d).

(b) The Closing Cash Payment shall be paid by the Purchaser to the Seller at the Closing as provided in Section 1.10(a). The "Closing Cash Payment" shall initially be ONE HUNDRED TWENTY FIVE MILLION DOLLARS ($125,000,000) minus the sum of: (i) the Indemnity Deposit; plus (ii) the Current Receivables Deposit; plus (iii) the aggregate Straddle Period Accruals; plus (iv) the Signing Bonuses. The amount of the Closing Cash Payment required to be paid by the Purchaser to the Seller at the Closing shall be reduced, if necessary, in accordance with Section 1.6(a).

(c) The Indemnity Deposit shall be delivered by the Purchaser to the Escrow Agent as provided in Section 1.10(b) and shall be held and disbursed by the Escrow Agent in accordance with the terms and conditions of the Indemnity Escrow Agreement.

(d) The Current Receivables Deposit shall be delivered by the Purchaser to the Escrow Agent as provided in Section 1.10(c) and shall be held and disbursed by the Escrow Agent in accordance with the terms and conditions of the Current Receivables Escrow Agreement.

(e) The parties acknowledge that certain payments are required to be made pursuant to the Assumed Contracts listed on Schedule 1.5(e) hereto (the "Tour Contracts"). All required payments earned under the Tour Contracts prior to the Closing Date and not yet paid by the Seller, including, without limitation, win bonuses and the pro rata portion of any base compensation (the "Straddle Period Accruals") shall be (i) treated as an offset against the Purchase Price and (ii) included in the calculation of the Purchase Price and the Closing Cash Payment in the manner set forth above. Any Straddle Period Accruals earned as of the Closing Date shall be paid by the Purchaser. Any year end bonuses, including bonuses based on money list standings (the "Year End Bonuses"), shall be prorated based on the period of time prior to and after the Closing. The Seller shall be responsible for the portion of Year End Bonuses earned prior to the Closing and the Purchaser shall be responsible for the portion of Year End Bonuses earned after the Closing. The Purchaser shall pay the Year End Bonuses and shall immediately be reimbursed from the Indemnity Deposit for the payments relating to Year End Bonuses (without giving effect to the Purchaser Recovery Threshold) in an amount equal to the aggregate amount of Year End Bonuses paid by the Purchaser multiplied by a fraction, the numerator of which is the number of days between (and including) January 1, 2003 and the Closing Date, and the denominator of which is 365.

(f) The Signing Bonuses shall be paid by the Purchaser promptly after the Closing to the Transferred Employees set forth on Schedule 1.5(f).

(g) The Purchaser shall prepare an allocation of the Purchase Price (and all other capitalized costs) among the Assets in accordance with Code ss.1060 and the Treasury regulations thereunder (and any similar provision of state, local or foreign law, as appropriate), which allocation shall be mutually agreed upon by the Seller and the Purchaser. The Purchaser shall deliver such allocation to the Seller within sixty (60) days after the Final Adjustment Date. If the Seller and the Purchaser are unable to agree on such allocation within thirty (30) days after delivery by the Purchaser to the Seller of

such allocation, they shall immediately, upon the expiration of such 30-day period, refer their remaining differences to the Independent Accountants, who shall determine such allocation among the Assets. The Purchaser and the Seller and their respective Affiliates shall report, act and file Tax Returns (including, but not limited to Internal Revenue Service Form 8594) in all respects and for all purposes consistent with such allocation prepared by the Purchaser and reasonably consented to by the Seller. The Seller shall timely and properly prepare, execute, file and deliver all such documents, forms and other information as the Purchaser may reasonably request to prepare such allocation. Neither the Purchaser nor the Seller shall take any position (whether in audits, tax returns or otherwise) which is inconsistent with such allocation except pursuant to Requirements of Law.

1.6 Assigned Inventory Adjustment.

(a) Not later than five (5) Business Days preceding the Closing Date, the Seller shall in good faith prepare, or cause to be prepared, and deliver to the Purchaser a certificate signed by the chief financial officer (or such other Person serving in a similar capacity) of the Seller setting forth its estimate of the Deemed Closing Date Inventory Value of the Assigned Inventory (expressed in United States dollars) as of the close of business on the Closing Date (the "Target Inventory") without giving effect to the consummation of any of the transactions contemplated hereby (the "Target Inventory Statement"). On the Closing Date, the Closing Cash Payment shall be adjusted as follows: (i) if the amount of the Target Inventory set forth in the Target Inventory Statement plus the Deemed Closing Date A/R Value of the Assigned Current Receivables is equal to or greater than $90,000,000, there shall be no adjustment to the Closing Cash Payment based on the amount of the Target Inventory and the Assigned Current Receivables; and (ii) if the amount of the Target Inventory set forth in the Target Inventory Statement plus the Deemed Closing Date A/R Value of the Assigned Current Receivables is less than $90,000,000, the Purchaser shall reduce the Closing Cash Payment (and, accordingly, the amount paid at Closing) by the amount of such deficiency. If the Target Inventory exceeds $43,650,000, it shall be deemed for purposes of this Section 1.6(a) to equal $43,650,000 notwithstanding such excess. The Seller shall cause there to be sufficient Inventory as of the Closing Date so that the Deemed Closing Date Inventory Value is at least $33,950,000.

(b) As soon as practicable, but in no event later than thirty (30) days following the Closing, the Purchaser shall in good faith prepare, or cause to be prepared, and deliver to the Seller a certificate signed by the chief financial officer of the Purchaser setting forth its determination of the Deemed Closing Date Inventory Value of Assigned Inventory (expressed in United States dollars) as of the close of business on the Closing Date (the "Closing Inventory") but without giving effect to the consummation of any of the transactions contemplated hereby (the "Closing Date Statement").

(c) The Seller shall, within thirty (30) calendar days after the delivery by the Purchaser of the Closing Date Statement, complete its review of the Closing Date Statement and the Closing Inventory reflected thereon. In the event that the Seller disagrees with the Closing Date Statement, the Seller shall inform the Purchaser in

writing (the "Objection") on or before the last day of such thirty (30) calendar day period, setting forth a description in reasonable detail of the basis of its objection(s) and the adjustments to the Closing Date Statement and the Closing Inventory reflected thereon which the Seller believes should be made; provided, that, no Objection may be made by the Seller if the amount of Closing Inventory reflected on the Closing Date Statement is within $100,000 of the amount that the Seller reasonably believes in good faith to be the actual Closing Inventory amount. Until the Final Adjustment Date (as defined below), each party and its Representatives will be afforded reasonable access to the Business' books, records and personnel during normal business hours, for the purposes of preparing, evaluating and resolving disputes regarding the Closing Date Statement and the Closing Inventory reflected thereon. Upon receipt of the Objection, the Purchaser shall have ten (10) Business Days to review and respond in writing to the Objection (and failure to do so will be deemed an acceptance by the Purchaser of the adjustments set forth in the Objection). During such ten (10) Business Day review period and, if the response referred to in the foregoing sentence is timely delivered, during the subsequent ten (10) calendar day period the parties shall seek in good faith to resolve any differences which they may have with respect to the matters specified in the Objection. If the Purchaser and the Seller are unable to resolve all of their differences with respect to the Objection within the ten (10) calendar day period following completion of the Purchaser's review of the Objection, they shall immediately upon the expiration of such ten (10) calendar day period refer their remaining differences to the Independent Accountants, who shall determine on the basis of the standards set forth in the definition of Deemed Closing Date Inventory Value, and only with respect to the remaining differences so submitted, whether and to what extent, if any, the Closing Date Statement and the Closing Inventory reflected thereon require adjustment. The parties shall instruct the Independent Accountants to deliver a written determination to the Purchaser and the Seller no later than the 20th calendar day after the Objection (or the unresolved portion thereof) is referred to the Independent Accountants. The Purchaser and the Seller will furnish to the Independent Accountants such work papers and other documents and information relating to the Objection as the Independent Accountants may reasonably request and the Purchaser and the Seller will be afforded the opportunity to present to the Independent Accountants any material relating to the determination and to discuss the determination with the Independent Accountants (provided that there shall be no ex parte conversations or meetings). The Independent Accountants shall act as an arbitrator for purposes of resolving the Objection, and not as an expert. The Independent Accountants will be required to enter into a customary engagement letter. The determination by the Independent Accountants will be binding and conclusive on the parties for all purposes. The Independent Accountants shall address only those issues in dispute, and may not assign a value to any item greater than the greatest value for such item claimed by either party or lower than the lowest value claimed by either party. Half of the fees and expenses of the Independent Accountants shall be borne by the Seller, on the one hand, and the other half shall be borne by the Purchaser, on the other hand. The "Final Closing Date Statement" shall be (i) the Closing Date Statement in the event that (x) no Objection is delivered to the Purchaser during the thirty (30) calendar day period specified above in this Section 1.6(c) for making Objections or (y) the Seller and the Purchaser so agree, (ii) the Closing Date Statement, adjusted in accordance with the Objection, in the event

that the Purchaser does not respond to the Objection within the ten (10) Business Day period following receipt by the Purchaser of the Objection or agrees with the Objection, or (iii) the Closing Date Statement, as adjusted by either (x) the agreement of the Seller and the Purchaser or (y) the Independent Accountants.

(d) On the date the Final Closing Date Statement is issued (such date being the "Final Adjustment Date"), the Purchase Price shall be adjusted as follows: (i) if the amount of Closing Inventory set forth in the Final Closing Date Statement is equal to the Target Inventory there shall be no adjustment to the Purchase Price based on the amount of the Closing Inventory; (ii) if the amount of the Closing Inventory set forth in the Final Closing Date Statement is greater than the Target Inventory, the Purchaser shall pay the Seller the amount of such excess; provided, that, if the Closing Inventory exceeds $43,650,000, it shall be deemed for purposes of this clause (ii) to equal $43,650,000 notwithstanding such excess; and (iii) if the amount of the Closing Inventory set forth in the Final Closing Date Statement is less than both the Target Inventory and $43,650,000 (the "Seller's Inventory Deficiency"), the excess (x) of the lesser of (1) the Target Inventory (without giving effect to the last sentence of Section 1.6(a)) and (2) $43,650,000 over (y) the Closing Inventory shall be paid to the Purchaser from the Indemnity Deposit (without giving effect to the Purchaser Recovery Threshold) up to a maximum of such Indemnity Deposit in immediately available funds in accordance with the terms of the Indemnity Escrow Agreement. The Purchaser acknowledges and agrees that the Indemnity Deposit is the sole source of funding to satisfy the Seller's Inventory Deficiency and under no circumstances shall the Purchaser be entitled to any amount of the Seller's Inventory Deficiency which exceeds the Indemnity Deposit.

(e) Any payments required under Section 1.6(d) shall (i) bear interest at the Discount Rate (the "Applicable Interest") and shall accrue from the Closing Date to, and including, the date such payment is actually made and (ii) be made within five (5) Business Days after the Final Adjustment Date by wire transfer of immediately available funds to an account specified by the Seller or the Purchaser, as applicable.

(f) In the event that Ernst & Young LLP, refuses to be retained as the Independent Accountant for purposes of Section 1.6(c), the Purchaser and the Seller (or, if the Purchaser and the Seller are unable to so agree within ten (10) Business Days of Ernst & Young LLP refusing to be so retained, the Purchaser's and the Seller's respective independent accounting firms) shall jointly select another independent accounting firm of recognized national standing, which firm shall be deemed to be the "Independent Accountants" for purposes of Section 1.6(c).

1.7 Accounts Receivable.

(a) Assigned Current Receivables.

(i) The Purchaser shall purchase from the Seller Current Receivables having a Deemed Closing Date A/R Value equal to the excess of $90,000,000 over the Target Inventory (such excess, the "Assigned A/R Value" and such purchased Current Receivables, the "Assigned Current Receivables").

To the extent, if any, that the Deemed Closing Date A/R Value of the Current Receivables exceeds the Assigned A/R Value (such excess, the "Retained A/R Value"), the Seller shall retain the Current Receivables having a Deemed Closing Date A/R Value equal to the Retained A/R Value. In the event that there is Retained A/R Value, the Seller shall retain all Current Receivables from the customers of the Seller set forth on Schedule 1.7(a), in the order (from top down) set forth on Schedule 1.7(a) until the Deemed Closing Date A/R Value of such retained Current Receivables equals the Retained A/R Value (such retained Current Receivables, the "Retained Current Receivables"). If the allocation of a Current Receivable pursuant to the immediately preceding sentence would result in:

(A) a customer's Current Receivable being divided between the Seller and the Purchaser, the Seller shall retain the least current portion of the Current Receivable of the customer and the Seller's portion of the proceeds thereof shall be paid in accordance with Section 1.7(b) below; or

(B) a single invoice of such Current Receivables being divided between the Seller and the Purchaser, such invoice shall be so divided and the Seller's portion of the proceeds thereof shall be paid in accordance with Section 1.7(b) below.

(ii) An amount equal to the Current Receivables Deposit shall be delivered to the Escrow Agent pursuant to Section 1.10(c) herein and held, in accordance with the Current Receivables Escrow Agreement, for a period not to exceed 180 days after the Closing Date; provided that no portion of the Current Receivables Deposit shall be released from the Current Receivables Escrow Agreement prior to the expiration of the period in which the Purchaser is entitled to make an election pursuant to subparagraph (iii) below.

(iii) The Purchaser shall: (A) use commercially reasonable efforts and, in any event, no less effort than the Purchaser uses to collect its own accounts receivable when collecting the Assigned Current Receivables and (B) not settle, modify or compromise any Assigned Current Receivable without the prior consent of the Seller. In the event that the Purchaser requests that the Seller consent to a settlement, modification or compromise of an Assigned Current Receivable, the Seller agrees to respond to such request within five (5) Business Days after such request is received by the Seller. If on the 181st day after the Closing Date there are Assigned Current Receivables which remain uncollected, the Purchaser may elect, in its sole discretion on an account-by-account basis, within five (5) Business Days after such 181st day to either (x) assign such uncollected Assigned Current Receivables to the Seller and deduct an amount equal to the Deemed Closing Date A/R Value of such uncollected Assigned Current Receivables (the "Current Receivables Deficiency") from the Current Receivables Deposit, (y) continue to collect such uncollected Assigned Current Receivables without any deduction from the Current Receivables Deposit or (z) any combination of clauses (x) and (y); provided, that the Purchaser shall be

permitted to recover the Current Receivables Deficiency only to the extent that it is equal to or less than, as the case may be, the Current Receivables Deposit. If the Purchaser fails to provide notice of its election on or prior to the fifth Business Day after such 181st day, it will be deemed to have irrevocably elected to proceed in accordance with clause (x) of the preceding sentence. If the Purchaser elects to proceed with clause (x) or (z) above, then it shall execute and deliver, concurrently with the release of funds from the Current Receivables Deposit, an instrument of transfer substantially in the form of the Bill of Sale and transfer such Current Receivables to the Seller free and clear of all Liens. Any remaining balance of the Current Receivables Deposit, after giving effect to this Section 1.7(a), shall be paid to the Seller in accordance with the Current Receivables Escrow Agreement. The Purchaser acknowledges and agrees that the Current Receivables Deposit is the sole source of funding to satisfy the Current Receivables Deficiency and under no circumstances shall the Purchaser be entitled to any amount of the Current Receivables Deficiency which exceeds the Current Receivables Deposit.

(iv) Not later than five (5) Business Days preceding the Closing Date, the Seller shall in good faith prepare, or cause to be prepared, and deliver to the Purchaser a certificate signed by the Chief Financial Officer (or such other Person serving in a similar capacity) of the Seller setting forth a reconciliation between the Deemed Closing Date A/R Value of the Assigned Current Receivables and the Deemed Closing Date A/R Value of the Assigned Current Receivables less the amount of "A&P" (which pertains solely to co-op advertising and other similar promotional items that are generally dilutive to such Assigned Current Receivables and which shall be determined on the same basis as "A&P" is determined in the Financial Statements) as of the Closing Date that are deductible from the Assigned Current Receivables (the "A/R Reconciliation"). If the A/R Reconciliation, as determined by the Seller and the Purchaser, is greater than $100,000, (A) the Current Receivables Deposit shall be increased by an amount in cash equal to the A/R Reconciliation and (B) the Closing Cash Payment shall be correspondingly reduced in accordance with Section 1.5(b).

(b) Retained Receivables.

(i) The Purchaser shall collect, on behalf of and for the account of the Seller, all Retained Current Receivables for a period of 180 days after the Closing Date (the "Collection Period"). In collecting such Retained Current Receivables, the Purchaser shall: (A) use commercially reasonable efforts and, in any event, no less effort that the Purchaser uses to collect its own accounts receivable; (B) shall not interfere with or prejudice the payment or collection of such Retained Current Receivables; and (C) not settle, modify or compromise any Retained Current Receivable without the prior consent of the Seller. In the event that the Purchaser requests that the Seller consent to a settlement, modification or compromise of a Retained Current Receivable, the Seller agrees to respond to such request within five (5) Business Days after such request is received by the Seller. As compensation for collecting such Retained

Current Receivables, the Seller shall pay to the Purchaser a collection fee equal to 2% of the payments collected by the Purchaser on Retained Current Receivables (the "Collection Fee").

(ii) The Purchaser shall remit to the Seller on a bi-weekly basis: (A) all payments received by the Purchaser on Retained Current Receivables less the Collection Fee and (B) a reasonably detailed accounting of the Retained Current Receivables as of such date, which shall include the amount received, the Retained Current Receivables as to which such payment was received and the Retained Current Receivables outstanding. During the Collection Period, upon reasonable notice, the Purchaser shall afford the Seller reasonable access, during normal business hours, to the books and records of the Purchaser relating to the Retained Current Receivables. The Seller may, in its sole discretion, elect to have a Representative of the Seller present at the Purchaser's offices during normal business hours to monitor the collection by the Purchaser of the Retained Current Receivables.

(iii) All records and other information regarding the Retained Current Receivables not collected by the Purchaser during the Collection Period shall be provided to the Seller on the 181st day after the Closing Date. The Seller may elect, in its sole discretion, to notify the Purchaser at any time during the Collection Period of its desire to collect on an account-by-account basis any or all Retained Current Receivables. Upon receipt of such notification, the Purchaser shall immediately terminate its efforts to collect the designated Retained Current Receivables and provide, with regard to such uncollected Retained Current Receivables, all records and other information. The Purchaser acknowledges and agrees that it is not entitled to the Collection Fee for any Retained Current Receivable collected by the Seller nor for any uncollected Retained Current Receivable.

(c) Unidentified Accounts Receivables. In the event that the Purchaser receives a payment from a third party that, pursuant to the terms of this Agreement, should have been paid to the Seller or the Foreign Subsidiaries, the Purchaser agrees to promptly remit such payment to the Seller. In the event that the Seller or the Foreign Subsidiaries receive a payment from a third party that, pursuant to the terms hereof, should have been paid to the Purchaser, the Seller agrees to promptly remit such payment to the Purchaser. If any party fails to forward payments to which another party is entitled, such party shall be entitled to make a claim for indemnification pursuant to Article VIII hereof, which claim shall not be subject to the Purchaser Recovery Threshold or the Seller Recovery Threshold, as the case may be. In the event that any party receives an unidentified payment from a customer, the recipient shall inquire of the customer as to the application thereof and, lacking a response, shall work closely and cooperatively with the other party to determine how the payment shall be applied. If the parties are unable to make such a determination, the payment shall be applied on a pro rata basis to the outstanding invoices of that customer.

(d) Returns. The Purchaser shall accept all goods sold by each of the Seller and the Foreign Subsidiaries prior to the Closing and returned to the Purchaser (the "Returned Goods"). For any Returned Goods returned to the Purchaser after the Closing Date and for which a customer took an allowance or credit on an Assigned Current Receivable, upon the Purchaser's receipt of such Returned Goods, the Purchaser shall be entitled to be reimbursed from the Current Receivables Deposit on the 181st day after the Closing Date for the excess of such allowance or credit taken by a customer, if any, over the value of the Returned Goods, which shall be determined in the same manner as set forth in the definition of Deemed Closing Date Inventory Value. For any Returned Goods returned to the Purchaser after the Closing Date and for which a customer took an allowance or a credit on a Retained Receivable, upon the Purchaser's receipt of such Returned Goods, the Purchaser shall pay the Seller the value of such Returned Goods, which shall be determined in the same manner as set forth in the definition of Deemed Closing Date Inventory Value.

1.8 Closing. Subject to the terms and conditions of this Agreement and the Sale Approval Order, the sale and purchase of the Assets and the assumption of the Assumed Liabilities contemplated by this Agreement shall take place at a closing (the "Closing") to be held at the offices of Paul, Weiss, Rifkind, Wharton & Garrison LLP, 1285 Avenue of the Americas, New York, New York at 10:00 A.M., New York time, on the third (3rd) Business Day following the satisfaction or waiver of all conditions to the obligations of the parties set forth in Sections 5 and 6 (other than those conditions which by their nature can only be satisfied at the Closing), or at such other place or at such other time or on such other date as the Seller and the Purchaser may mutually agree upon in writing (the day on which the Closing takes place being the "Closing Date").

1.9 Closing Deliveries by the Seller. At the Closing, unless otherwise waived in writing by the Purchaser, the Seller shall deliver or cause to be delivered to the Purchaser:

(a) duly executed Bills of Sale to transfer the Assets which are tangible property to the Purchaser (or its permitted assign) free and clear of all Encumbrances, other than Permitted Encumbrances, or evidence such transfer on the public records;

(b) duly executed Assignments of Intangible Property substantially in the form of Exhibit G to transfer the Assets which are intangible property to the Purchaser (or its permitted assign) free and clear of all Encumbrances, other than Permitted Encumbrances, or evidence such transfer on the public records;

(c) executed counterparts of the Indemnity Escrow Agreement;

(d) executed counterparts of the Current Receivables Escrow Agreement;

(e) executed counterparts of the Assignment and Assumption Agreement;

(f) duly executed and acknowledged deeds, in substantially the form of Exhibit H hereto, conveying each Owned Real Property to the Purchaser free and clear of all Encumbrances, other than Permitted Encumbrances;

(g) a receipt for the Closing Cash Payment; and

(h) a certificate signed by the Chief Financial Officer (or such other Person serving in a similar capacity) of the Seller setting forth the aggregate Straddle Period Accruals as of the Closing Date.

1.10 Closing Deliveries by the Purchaser. At the Closing, unless otherwise waived in writing by the Seller, the Purchaser shall deliver or cause to be delivered to the Seller (or the Escrow Agent where required):

(a) an amount equal to the Closing Cash Payment by wire transfer of immediately available funds to account (or accounts) designated by the Seller at least two (2) Business Days prior to the Closing Date;

(b) an amount in cash equal to the Indemnity Deposit by wire transfer of immediately available funds to the Escrow Agent in accordance with the Indemnity Escrow Agreement;

(c) an amount in cash equal to the Current Receivables Deposit by wire transfer of immediately available funds to the Escrow Agent in accordance with the Current Receivables Escrow Agreement;

(d) executed counterparts of the Indemnity Escrow Agreement;

(e) executed counterparts of the Current Receivables Escrow Agreement; and

(f) executed counterparts of the Assignment and Assumption Agreement.

2. Representations and Warranties of the Seller. Except as set forth in the schedules to this Agreement (the "Schedules") delivered by the Seller on the date hereof, each of which Schedule shall specify the section to which such Schedule relates and shall be deemed to qualify such section and any section to which such exception or disclosure is reasonably apparent, the Seller represents and warrants to the Purchaser on the date hereof, that:

2.1 Due Incorporation and Authority. The Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Seller is licensed, registered, qualified or admitted to do business in each material jurisdiction in which the ownership, use or leasing of any of the Seller's assets or properties or the conduct or nature of the Business makes such licensing, qualification, or admission necessary. The Seller has all requisite corporate power and authority to own, lease and operate its material properties and to carry on its business as now being

conducted. Subject to the entry of the Sale Approval Order, (a) the Seller has all requisite corporate power and authority to enter into this Agreement, carry out its obligations hereunder and consummate the transactions contemplated hereby and (b) the execution and delivery by the Seller of this Agreement, the performance by the Seller of its respective obligations hereunder and the consummation by the Seller of the transactions contemplated hereby have been duly authorized by all requisite corporate action on the part of the Seller and no other corporate proceedings on the part of the Seller are necessary to authorize the execution and delivery of this Agreement or to consummate the other transactions contemplated hereby. This Agreement has been duly executed and delivered by the Seller, and, upon entry of the Sale Approval Order (assuming the due authorization, execution and delivery of this Agreement by the Purchaser), this Agreement constitutes the legal, valid and binding obligation of the Seller enforceable against the Seller in accordance with its terms, except to the extent enforceability may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting creditors rights generally or by general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law).

2.2 Subsidiaries.

(a) Schedule 2.2 sets forth the name and jurisdiction of organization of each corporation, limited liability company, or other entity (each, a "Subsidiary," and collectively, the "Subsidiaries") in which the Seller directly or indirectly owns or has the power to vote shares of any capital stock or other ownership interests having voting power to elect a majority of the directors of such corporation or other Persons performing similar functions for such entity, as the case may be. Except for the Excluded Securities and as set forth on Schedule 2.2(d), the Seller does not directly or indirectly own any interest in any other Person.

(b) Each of the Subsidiaries is duly organized, validly existing and (to the extent the concept of good standing exists in the applicable jurisdiction) in good standing under the laws of its jurisdiction of organization. Each of the Subsidiaries has all requisite corporate or other power and authority to own, lease and operate its properties and to carry on its business as now being conducted, except where the failure to have such power and authority would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

(c) Each Subsidiary is duly qualified or licensed to do business in all other jurisdictions where such Subsidiary currently conducts business that requires such qualification or licensing, except where the failure to so qualify or be licensed would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

(d) The authorized and issued shares of capital stock or other ownership interests of each of the Subsidiaries are set forth on Schedule 2.2(d). All of the issued and outstanding capital stock and other ownership interests of each of the Subsidiaries is owned by the Seller, free and clear of any Encumbrance, except for Liens that shall be released at or prior to the Closing. All of the outstanding shares of capital

stock of each of the Subsidiaries are duly authorized and validly issued, fully paid and nonassessable. No other class of capital stock or other ownership interests of any of the Subsidiaries is authorized or outstanding.

(e) Other than as set forth above, there are no securities, options, warrants, calls, rights, commitments, Contracts, arrangements or undertakings of any kind to which any of the Subsidiaries is a party or by which any of them is bound or affected obligating any of its Subsidiaries to issue, deliver or sell, or redeem, repurchase, acquire or pay for or cause to be issued, delivered or sold, or redeemed, repurchased, acquired or paid for additional shares of capital stock, equity interests or other voting securities of any of the Subsidiaries, or obligating any of the Subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right commitment, Contract, arrangement or undertaking.

2.3 No Conflicts. Subject only to the entry of the Sale Approval Order, the execution and delivery by the Seller of this Agreement, the consummation of the transactions contemplated hereby, and the performance by the Seller of this Agreement in accordance with its terms will not:

(a) violate the certificate of incorporation or by-laws (or comparable instruments) of the Seller or any of the Subsidiaries;

(b) require the Seller to obtain any consents, approvals, authorizations or actions of, or make any filings with or give any notices to, any Governmental Bodies or any other Person, except for (i) the notification requirements of the HSR Act (and any foreign counterparts thereof), (ii) as set forth on Schedule 2.3(b) (the "Seller Consents and Notices"), or (iii) consents, approvals, or authorizations of, or declarations or filings with, the Bankruptcy Court;

(c) if the Seller Consents and Notices are obtained or made, violate or result in the breach of any of the terms and conditions of, cause the termination of or give any other contracting party the right to terminate, or constitute (or with notice or lapse of time, or both, constitute) a default under, any Material Contract or Assumed Contract, or result in the creation of any Encumbrance upon any of the properties of the Seller or any of the Subsidiaries pursuant to the terms of any Material Contract or Assumed Contract; or

(d) violate any Requirement of Law to which the Seller or any of the Subsidiaries or any of their respective assets or properties are subject.

provided, however, that the Seller makes no representations or warranties in this Section 2.3 with respect to Environmental Laws, which are specifically and exclusively addressed in Section 2.10; and provided, further, that each of the cases set forth in clauses (b) through (d) above is subject to exceptions that would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

2.4 Organizational Documents. The Seller has previously made available to the Purchaser true, accurate, and complete copies of the certificate of incorporation and bylaws, or comparable instruments, of each of the Subsidiaries as in effect on the date hereof. None of the Subsidiaries is in violation of its certificate of incorporation, bylaws or other similar organizational document.

2.5 Financial Statements.

(a) The audited balance sheet of SHC, Inc. and its consolidated subsidiaries, including the Seller and the Subsidiaries, as of December 31, 2001, the audited statements of income and cash flows of SHC, Inc. and its consolidated subsidiaries, including the Seller and the Subsidiaries, for each of the fiscal years ended December 31, 2000 and 2001, the unaudited balance sheet of SHC, Inc. and its consolidated subsidiaries, including the Seller and the Subsidiaries, as of December 31, 2002 and March 31, 2003, and the unaudited statements of income of SHC, Inc. and its consolidated subsidiaries, including the Seller and the Subsidiaries, for the year ended December 31, 2002 and the three months ended March 31, 2003 (in each case, including the notes thereto, if any , the "SHC Financial Statements"), copies of which have been delivered to the Purchaser, are true, complete and accurate in all material respects and fairly present in all material respects the financial position and results of operations of SHC, Inc. and its consolidated subsidiaries, including the Seller and the Subsidiaries, as of their respective date, and the income and cash flows of SHC, Inc. and its consolidated subsidiaries, including the Seller and the Subsidiaries, for the periods covered thereby (except in the case of the unaudited financial statements, for normal, year-end audit adjustments and the absence of footnotes). The SHC Financial Statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") consistently applied during the periods covered, except as indicated in any notes thereto. Unaudited summary income statement information containing the line items listed on Schedule 2.5 of the Sporting Goods Business for the 12-month period ended December 31, 2002 (the "Sporting Goods Financials") has been provided to the Purchaser and has been prepared in accordance with the books of account and other financial records of the Sporting Goods Business. The Sporting Goods Financials have been prepared in accordance with GAAP applied on a consistent basis, are true, complete and accurate in all material respects with respect to the line items set forth therein and fairly present in all material respects the financial results of operations of the Sporting Goods Business, to the extent set forth in such line items and without giving affect to any other matters including those relating to allocations for selling, general and administrative expenses of the Sporting Goods Business for the year December 31, 2002. Except as disclosed in the SHC Financial Statements, neither SHC, Inc. nor its consolidated subsidiaries, including the Seller and the Subsidiaries, has any liabilities or obligations of any nature, whether or not accrued, contingent or otherwise that would be required by GAAP to be reflected in the SHC Financial Statements, other than liabilities and obligations incurred since March 31, 2003, in the ordinary course of business consistent with past practices and other than liabilities and obligations in connection with sales of the ETONIC Business and the Sporting Goods Business. The SHC Financial Statements and the Sporting Goods Financials are collectively referred to herein as the "Financial Statements."

2.6 No Material Adverse Change. Except (a) as contemplated by this Agreement, the filing and prosecution of the Bankruptcy Case and the operation of the Business in bankruptcy pursuant to the Bankruptcy Case, (b) as disclosed in the Financial Statements, and (c) for sale of the ETONIC Business and the sale of the Sporting Goods Business, since March 31, 2003, there has not been: (i) any damage, destruction or loss, whether or not covered by insurance, that would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect; (ii) any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to any of the shares of the Subsidiary Stock; (iii) any change, occurrence or circumstance in the financial condition, business, results of operations, properties or assets of the Seller or any of Subsidiaries that would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect; or (iv) except as required by GAAP, any change by SHC, Inc., the Seller, or any Subsidiary in its respective accounting principles, practices, or methods.

2.7 Tax Matters. Except as otherwise set forth on Schedule 2.7:

(a) all material Tax Returns required to be filed with respect to each of the Seller and the Subsidiaries have been filed in a timely manner (within any applicable extensions of time) through the date of this Agreement, and all Taxes shown on such Tax Returns have been timely paid, except for Taxes that are being contested in good faith and for payment of which adequate reserves will have been set up as of the Closing Date;

(b) there are no waivers or arrangements extending the statutory period of limitations applicable to any Claim for Taxes due from or with respect to the Seller or any of the Subsidiaries for any taxable period;

(c) to the Seller's Knowledge, (A) the Tax Returns of the Seller and the Subsidiaries are not currently under audit or examination by the IRS and (B) no audit or other proceeding by any court, governmental or regulatory authority or similar authority is pending, and neither the Seller nor any of the Subsidiaries has received any written notification that such an audit or proceeding may be commenced, with respect to any Taxes due from the Seller or any of the Subsidiaries; and

(d) each of the Seller and its Subsidiaries has withheld and paid all Taxes required to have been withheld and paid in connection with any amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party, and all Forms W-2 and 1099 required with respect thereto have been properly completed and timely filed.

2.8 Compliance with Laws. Neither the Seller nor any of the Subsidiaries is in violation of any domestic, foreign, federal, state or local statute, law, rule, regulation, order, writ, ordinance, judgment, governmental directive, injunction, decree or other requirement of any Governmental Body ("Requirement of Law"), which violation would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect; provided, however, that the Seller makes no representations or warranties in this Section 2.8 with respect to Tax laws, Environmental Laws or ERISA and

employee benefit and labor laws, which are specifically and exclusively addressed in Sections 2.7, 2.10, 2.17 and 2.18, respectively.

2.9 Permits. Each of the Seller and the Subsidiaries has all material licenses, franchises, permits, variances, exemptions, orders, approvals, and authorizations of such Governmental Bodies as are necessary for the lawful conduct of the Business (collectively, "Permits"). The Seller and each of the Subsidiaries is in compliance with the terms of the Permits held by it and such Permits are valid and in full force and effect and will not be terminated in whole or in part as a result of the transactions contemplated by this Agreement, except as would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

2.10 Environmental Laws.

(a) The term "Environmental Law" means all applicable Requirements of Law relating to: (i) the protection, investigation or restoration of the environment or natural resources; (ii) the handling, use, presence, disposal, release or threatened release of any Hazardous Material; or (iii) noise, odor, wetlands, pollution or contamination.

(b) The term "Hazardous Material" means any material or substance: (i) the presence of which requires Remediation or, solely on account of its presence, investigation under any Environmental Law; (ii) the generation, storage, treatment, release, emission, transportation, disposal, Remediation, removal, handling or management of which is regulated by any Environmental Law; (iii) that is defined as a "solid waste," "pollutant or contaminant," "hazardous waste" or "hazardous substance" under any Environmental Law; (iv) that contains gasoline, diesel fuel or other petroleum hydrocarbons, polychlorinated biphenyl (PCBs) or asbestos; (v) that is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic or mutagenic or otherwise hazardous and is regulated by any Governmental Body having or asserting jurisdiction over the Seller or the Business; or (vi) that is regulated by any Governmental Body having or asserting jurisdiction over workplace hazards.

(c) The term "Remediation" means any investigation, monitoring, clean-up, containment, remediation, mitigation, removal, disposal or treatment of Hazardous Materials, including without limitation the preparation and implementation of any work plans and the obtaining of authorizations, approvals and permits from Governmental Authorities with respect thereto.

(d) Except as set forth on Schedule 2.10, the Seller and its Subsidiaries have obtained all material approvals, authorizations, certificates, consents, licenses, orders and permits or other similar authorizations of all Governmental Bodies, or from any other Person, that are required under any Environmental Law ("Environmental Permits").

(e) Except as set forth on Schedule 2.10, the Seller and its Subsidiaries are and have been since January 1, 2001 in substantial compliance with all material terms and conditions of all Environmental Permits that are used in the Business or that relate to

the Seller or the Assets, and all other material limitations, restrictions, conditions, standards, requirements, schedules and timetables required or imposed under all Environmental Laws.

(f) Except as set forth on Schedule 2.10, there have been and are no material events, conditions, circumstances, incidents, actions or omissions relating to or in any way affecting the Seller, the Subsidiaries, the Business, the Assets, the Owned Real Property, the Leased Real Property, or the Formerly Owned and Leased Real Property that violate any Environmental Law, or that have given rise to any Liability under any Environmental Law (including, without limitation, any Hazardous Materials which have been released, disposed of, emitted, treated, stored, generated, placed, deposited, discharged, or spilled at, upon or under any facility ever owned, operated or leased by the Seller or its Subsidiaries, or any facility to which the Seller or the Subsidiaries have sent any Hazardous Material), or otherwise form the basis of any claim, action, demand, suit, proceeding, hearing, study or investigation (i) under any Environmental Law or (ii) based on or related to the manufacture, processing, distribution, use, treatment, storage (including without limitation underground storage tanks), disposal, transport or handling, or the emission, discharge, release or threatened release of any Hazardous Material or resulting from exposure to workplace hazards.

(g) Except as set forth on Schedule 2.10, the Seller and its Subsidiaries have not, as of the date hereof, received any written notice, claim, subpoena, or summons, or been threatened in writing with any notice, claim, subpoena, or summons, from any Person, including without limitation any Governmental Body, alleging (a) any material Liability of the Seller or its Subsidiaries under any Environmental Law or (b) any material violation by the Seller or its Subsidiaries of any Environmental Law.

2.11 Contracts.

(a) Schedule 2.11(a) hereto sets forth a complete and accurate list of the material Contracts as of the date hereof to which the Seller or any of the Subsidiaries is a party or by which any of their properties is bound (collectively, "Material Contracts"):

(i) the Sporting Goods Sale Agreements, the ETONIC Sale Agreements, and the Contracts of the Seller or any of the Subsidiaries that constitute Excluded Assets;

(ii) manufacturing Contracts and Contracts for the purchase or lease of personal property with any supplier or for the furnishing of services to the Seller or any of the Subsidiaries that in each case involve payments in excess of $100,000, other than short-term purchase orders entered into in the ordinary course of business consistent with past practice;

(iii) broker, distributor, dealer, manufacturer's representative, reseller, agency, and sales promotion Contracts involving payments in excess of $100,000, material exclusive dealing or exclusivity agreements and any other

material Contract that compensates any Person, other than employees or consultants of the Seller or any of the Subsidiaries, based on any sales by the Seller or any of the Subsidiaries;

(iv) leases and subleases of Real Property;

(v) Contracts with any Governmental Body in an amount or having a value in excess of $100,000;

(vi) Contracts that contemplate or involve the performance of services or sales of products by the Seller or any of the Subsidiaries having a value in excess of $100,000 in the aggregate, which in either case are not terminable by the Seller or any of the Subsidiaries without material penalty or not more than 90 days' prior notice;

(vii) Contracts pursuant to which the Seller or any of the Subsidiaries has granted any exclusive marketing, manufacturing, license, sales representative, distribution, or other right to any third party;

(viii) Contracts with any current or former officer, director, shareholder, employee, consultant, agent or other representative or with an entity in which any of the foregoing is a controlling person of the Seller having a value in excess of $100,000;

(ix) Contracts for management services with any Person;

(x) Contracts containing covenants of the Seller or any of the Subsidiaries not to compete in any line of business or with any other Person in any geographical area or covenants of any other Person not to compete with the Seller or any of the Subsidiaries in any line of business or in any geographical area;

(xi) Contracts of the Seller or any Subsidiary pursuant to which the Seller or any Subsidiary received (or was entitled to receive) or paid (or was obligated to pay) more than $100,000 in the twelve (12) month period ended March 31, 2003 (provided such Contract remains in effect as of the date hereof);

(xii) Contracts in effect on the date of this Agreement under which the Seller or any Subsidiary is entitled to receive hereafter more than $100,000;

(xiii) Contracts that will be subject to default, termination, repricing or renegotiation upon the consummation of the transactions contemplated by this Agreement;

(xiv) Contracts of the Seller or any Subsidiary relating to, and evidences of, indebtedness for borrowed money, any mortgage, security

agreement, or the deferred purchase price of property (whether incurred, assumed, guaranteed or secured by any asset);

(xv) each partnership, joint venture, joint marketing or other similar Contract or arrangement to which the Seller or any Subsidiary is a party or by which it is otherwise bound;

(xvi) Contracts granting to the Seller or any Subsidiary any material right under or with respect to any Intellectual Property;

(xvii) Contracts under which the Seller or any Subsidiary grants any material right under or with respect to any Intellectual Property to another Person;

(xviii) each Contract that requires the Seller or any Subsidiary to grant "most favored customer" pricing to any other Person; and

(xix) each Contract that is otherwise material to the Seller and the Subsidiaries, taken as a whole.

(b) Copies of all Material Contracts have been previously delivered to or made available by the Seller for inspection by the Purchaser, and such copies are, true, complete, and correct. Subject to (i) the Bankruptcy Case (including any breaches or defaults relating to the commencement thereof and any payables that would have been paid but for the commencement thereof) and (ii) the payment of the Cure Costs by the Seller and, except as disclosed on Schedule 2.11(b) hereof: (A) each Material Contract is a valid and binding obligation of the Seller or the Subsidiaries and, to the Seller's Knowledge, the other parties thereto, and to the Seller's Knowledge, is in full force and effect; (B) the Seller or its Subsidiaries have performed all material obligations required to be performed by it to date under each Material Contract and is not (with or without the lapse of time or the giving of notice, or both) in breach or default thereunder; and (C) to the Seller's Knowledge, each of the other parties to such Material Contracts has performed all obligations required to be performed by it as of the date hereof under such Material Contracts and is not (with or without the lapse of time or the giving of notice, or both) in breach or default thereunder.

(c) Except as set forth on Schedule 2.11(c), the Seller has not assigned any license or distribution rights or obligations under any Contract to any other Party.

2.12 Property. The Seller or one of the Subsidiaries (subject to the entry of, and the provision of, the Sale Approval Order) has good title, free and clear of all Encumbrances, to all of the owned properties and assets, real and personal, tangible or intangible, used in the conduct of the Business that are reflected on the Financial Statements or were acquired after January 1, 2003 except for: (i) Liens incurred in the ordinary course of business; (ii) Permitted Encumbrances; (iii) Liens that shall be released at or prior to the Closing; and (iv) Liens set forth on Schedule 2.12 hereto; provided, however, that the Seller makes no representations or warranties in this Section

2.12 with respect to its Intellectual Property and its Real Property, which are specifically and exclusively addressed in Sections 2.14 and 2.13, respectively, or with respect to the Excluded Assets. There are no Liens in favor of the PBGC that will continue after the Closing with respect to any of the Assets, which includes the Real Property and, to the Seller's Knowledge as of the date hereof, the PBGC has not taken any actions to impose any such Liens. With respect to leased properties and assets, the Seller and its Subsidiaries have valid leasehold interests in such properties and assets. All tangible assets which are leased by the Seller or any of its Subsidiaries have been maintained with the manufacturers' standards and specifications required by each such lease such that at each such termination of the lease such assets can be returned to their owner without any further material obligation on the part of the Seller or any of its Subsidiaries with respect thereto.

2.13 Real Property.

(a) Ownership of the Premises. The Seller or one of the Subsidiaries is the owner of good and insurable fee title to the land described on Schedule 2.13(a), including all easements, rights-of-way, strips, zones, privileges, licenses, hereditaments, tenements and appurtenances belonging thereto, and any right or interest in any open or proposed highways, streets, roads, avenues, alleys, and rights-of-way in, across, in front of, contiguous to, abutting or adjoining the land, and other rights and benefits running with the land and/or the owner of the land and to all of the buildings, structures and other improvements located thereon, including, without limitation, electrical distribution systems, HVAC systems, walkways, driveways, parking lots, plumbing, lighting, and mechanical equipment, and fixtures installed thereon, and all rights, benefits and privileges appurtenant thereto (collectively, the "Owned Real Property") free and clear of all Encumbrances, except for (i) the matters listed on Schedule 2.13(a) and (ii) Permitted Encumbrances. The Owned Real Property constitutes all of the real property owned by the Seller and its Subsidiaries.

(b) Leased Properties. Schedule 2.13(b) is a true and complete list of all leases, subleases, licenses and other agreements (collectively, the "Real Property Leases") under which either the Seller or any of its Subsidiaries uses or occupies or has the right to use or occupy, now or in the future, any real property that is not Owned Real Property (the land, buildings and other improvements covered by such Real Property Leases being herein called the "Leased Real Property"). Subject to (x) the Bankruptcy Case (including any breaches or defaults relating to the commencement thereof and any payables that would have been paid but for the commencement thereof), and (y) payment of the Cure Costs by the Seller, (i) all of the Real Property Leases set forth on Schedule 2.13(b) are valid, existing, in full force and effect and binding upon the Seller or its Subsidiaries, as the case may be, and the other parties thereto in accordance with their terms, (ii) each of the Seller and its Subsidiaries is in compliance with all material terms and requirements of each such Real Property Lease, and all rent and other sums and charges payable by the Seller or any of its Subsidiaries as tenant thereunder are current and (iii) either the Seller or any of the Subsidiaries, whichever is applicable, holds the leasehold estate and interest in each such Real Property Lease free and clear of all

Encumbrances, other than Permitted Encumbrances and other than Liens that shall be released at or prior to the Closing.

(c) Entire Premises. Except as set forth in Schedule 2.13(c), all of the land, buildings, structures and other improvements used by the Seller or any of its Subsidiaries in the conduct of their respective businesses are included in the Owned Real Property or the Leased Real Property. The Leased Real Property and the Owned Real Property are hereinafter collectively referred to as the "Real Property."

(d) Space Leases. Schedule 2.13(d) is a true and complete schedule of all leases, subleases, licenses and other agreements (collectively, the "Space Leases") granting to any Person or entity other than the Seller or any of its Subsidiaries any right to the possession, use, occupancy or enjoyment of the Real Property or any portion thereof.

(e) Improvements. Except as set forth on Schedule 2.13(e), all utilities and the plumbing, electrical, mechanical, heating, ventilating and air-conditioning and other systems required for the present use of the Real Property are installed and operating. All such utilities enter the Real Property through adjoining public streets or through valid easements across adjoining private lands, and all installation, connection and capital recovery charges in connection with such utilities have been paid in full.

(f) Certificates of Occupancy. Schedule 2.13(f) is a true and complete list of all certificates of occupancy in the Seller's possession affecting the improvements located on the Real Property (the "Certificates of Occupancy"). True, complete and correct copies of the Certificates of Occupancy have been delivered to the Purchaser, and all Certificates of Occupancy are in full force and effect except those which would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the impacted premises. To the Seller's Knowledge and except if already issued or amended, no material alteration, improvement or change in use of any building or other improvement has been completed or commenced that would require the issuance of a new certificate of occupancy or the amendment of an existing Certificate of Occupancy.

(g) Zoning. To the Seller's Knowledge there is no proposed or pending proceeding to change or redefine the applicable legal requirements pertaining to zoning of any portion of the Real Property except which would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the impacted premises.

(h) Assessments. No proceeding seeking a reduction in real estate taxes imposed upon the Real Property or the assessed valuation of the Real Property or any portion thereof have been settled during the three (3) year period preceding the date of this Agreement or are currently pending other than as set forth on Schedule 2.13(h). There is no pending or, to the Seller's Knowledge, proposed imposition of any special or other assessments affecting the Real Property or any portion thereof or any penalties or interest due with respect to real estate Taxes assessed against all or any portion of the

Real Property that are payable by the Seller or would result in a Lien against the Real Property.

(i) Land Use. None of the Seller or any of its Subsidiaries has received notice of, and to the Seller's Knowledge, there is not any pending, threatened or contemplated action to change the zoning status of the Real Property or eminent domain proceedings which would reasonably be expected to have, individually and in the aggregate, a Material Adverse Effect on the use or operation of any portion of the Real Property.

(j) Former Properties. Schedule 2.13(j) is a true and complete schedule of all real property formerly owned or leased by the Seller and any of its Subsidiaries on which manufacturing activities were conducted by the Seller in connection with the Business over the past ten (10) years ("Formerly Owned and Leased Real Property").

2.14 Intellectual Property. Schedule 2.14 sets forth a complete and accurate list of all current registrations and applications for registration in the name of the Seller or the Subsidiaries for the Intellectual Property. Except as set forth on Schedule 2.14, to the Seller's Knowledge, the Seller or one of the Subsidiaries owns or possesses, free and clear of all Encumbrances, other than Permitted Encumbrances, or has valid licenses on reasonable terms to use all the Intellectual Property. To the Seller's Knowledge, all of such Intellectual Property is valid and enforceable. The Seller has taken all necessary actions to maintain and protect each item of such Intellectual Property other than as would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. Subject to (x) the Bankruptcy Case (including any breaches or defaults relating to the commencement thereof and any payables that would have been paid but for the commencement thereof) and (y) payment of the Cure Costs by the Seller, the Seller and the Subsidiaries are in compliance with the material terms of any license to or license of Intellectual Property. Except as otherwise set forth on Schedule 2.14, neither the Seller nor any of the Subsidiaries has received any notice that, and to the Seller's Knowledge, none of, the Intellectual Property or any products or services owned, used, developed, provided, sold or licensed by the Seller or any of the Subsidiaries in the operations of the Business by the Seller or any of the Subsidiaries currently infringes upon or otherwise violates any intellectual property rights of others other than as would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. Except as set forth on Schedule 2.14, to the Seller's Knowledge, no Person is infringing upon or otherwise violating any rights associated with such Intellectual Property, in each case, other than as would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. Except as otherwise set forth on Schedule 2.14, no Claim is pending against the Seller or the Subsidiaries or, to the Seller's Knowledge, is threatened, (i) contesting the right of the Seller or the Subsidiaries to make, use, sell, import, export, license, or make available to any Person any of the products or services of the Seller or any of the Subsidiaries currently sold, offered, licensed or made available to any Person or used by the Seller in connection with the Business with respect to the Seller or any of the Subsidiaries or

(ii) opposing or attempting to cancel any of the rights associated with the Intellectual Property, in each case, other than as would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. Except as otherwise set forth on Schedule 2.14, the Intellectual Property is not subject to any material outstanding decree, order, judgment, settlement, agreement, or stipulation that restricts in any manner the Seller's or any of its Subsidiaries' use, transfer, or licensing thereof. To the Seller's Knowledge, neither the Seller nor any of its Subsidiaries has knowingly misrepresented or failed to disclose any facts or circumstances in any application for Intellectual Property that would constitute fraud or misrepresentation with respect to such application or that would otherwise affect the validity or enforceability of the Intellectual Property. The Intellectual Property and the license agreements transferred pursuant to this Agreement constitute all of the Intellectual Property used in or necessary to operate or conduct the Business as currently conducted. There are no Liens in favor of the PBGC that will continue after the Closing with respect to the Intellectual Property and, to the Seller's Knowledge as of the date hereof, the PBGC has not taken any actions to impose any such Liens.

2.15 Litigation. Except as set forth on Schedule 2.15 hereto and except for the Bankruptcy Case and any and all actions, adversary proceedings and litigation arising therefrom or related thereto, (a) there are no Claims, including products liability Claims, pending or, to the Seller's Knowledge, threatened against the Seller with respect to the Seller, any of the Subsidiaries or the Real Property before any Governmental Body that, either individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect or prevent or materially delay the consummation by the Seller of the transactions contemplated by this Agreement and (b) neither the Seller nor any of the Subsidiaries is subject to any continuing order of, consent decree, settlement agreement or other similar written agreement with, or, to the Seller's Knowledge, continuing investigation by, any Governmental Body, or any material order, writ, judgment, injunction, decree, determination or award of any Governmental Body.

2.16 Brokers. Except for the fees payable by the Seller to Credit Suisse First Boston, none of the Seller or any of the Subsidiaries has paid or agreed to pay, or received any Claim with respect to, any brokerage commissions, finders' fees or similar compensation in connection with the transactions contemplated hereby.

2.17 Employee Benefit Plans. Except as set forth on Schedule 2.17 hereto:

(a) neither the Seller nor any Subsidiary maintains or contributes to, or has any obligation to maintain or contribute to, any material plan, program, arrangement, agreement or commitment which is an employment, consulting or deferred compensation agreement, or any material executive compensation, incentive bonus, retention bonus, or other bonus, employee pension, profit-sharing, savings, retirement, stock option, stock purchase, "make whole," severance pay, life, health, disability or accident insurance plan or other employee benefit plan, program, arrangement, agreement or commitment, in each case, whether or not subject to ERISA and whether oral or written (individually, a "Benefit Plan," and collectively, the "Benefit Plans").

(b) none of the Seller, any Subsidiary or any Person who would be considered a single employer with the Seller or any Subsidiary pursuant to Section 414(b), (c), (m) or (o) of the Code (an "ERISA Affiliate") (i) has terminated within the last six years any plan subject to Title IV of ERISA or Section 412 of the Code (any such plan, a "Title IV Plan"), (ii) incurred any outstanding liability under Section 4062 of ERISA to the PBGC, or to a trustee appointed under Section 4042 of ERISA, or (iii) has filed a notice of intent to terminate any Title IV Plan or adopted any amendment to treat any such Title IV Plan as terminated. To the Seller's Knowledge, no Benefit Plan that is subject to Section 302 of ERISA or Section 412 of the Code has incurred any "accumulated funding deficiency" within the meaning of Section 302 of ERISA or Section 412 of the Code, whether or not waived, and no liability (other than for annual premiums) to the PBGC has been incurred by the Seller or any of its ERISA Affiliates. None of the Seller, any Subsidiary or any ERISA Affiliate has an obligation to contribute or contributes to or had an obligation to contribute or contributed to, within the last six years, any "multiemployer plan" (within the meaning of Section 3(37) of ERISA).

(c) Neither the Seller nor any Subsidiary has any obligation to provide or make available post-employment welfare benefits or welfare benefit coverage for any employee or former employee, except as may be required under COBRA.

(d) The Seller has made available to the Purchaser with respect to each Benefit Plan, a true, correct and complete copy thereof and, to the extent applicable: (i) the most recent documents constituting the Benefit Plan and all amendments thereto; (ii) any related trust agreement or other funding instrument; (iii) the most recent IRS determination letter; (iv) the most recent summary plan description; and (v) the most recent (A) Form 5500 and attached schedules, (B) audited financial statements, and (C) actuarial valuation reports.

(e) No Benefit Plan requires or obligates the Purchaser to assume the benefits or to have any liability thereunder except as required under COBRA or other Requirements of Law. As of the date hereof, to the Seller's Knowledge, except for routine claims for benefits, there are no pending, threatened or anticipated claims by, related to or on behalf of any Benefit Plan, by any participant or beneficiary of a Benefit Plan and there is no pending or threatened proceeding , investigation or inquiry involving any Benefit Plan by the IRS, the U.S. Department of Labor or any other Governmental Body.

(f) As of the date hereof, to the Seller's Knowledge, (i) each Benefit Plan intended to be qualified under Section 401(a) of the Code is the subject of a currently effective favorable determination or opinion letter from the IRS or an application for such a letter has been requested on behalf of each such Benefit Plan and (ii) no event or circumstance has occurred or exists which would result in the revocation of any such determination or opinion letter.

(g) As of the date hereof, to the Seller's Knowledge, the Seller, its Subsidiaries and its ERISA Affiliates have complied in all material respects with the requirements of the health care continuation coverage requirements of COBRA and none

of the Company or any of its ERISA Affiliates had engaged in a transaction or has taken or failed to take any action in connection with which the Seller, its Subsidiaries or any ERISA Affiliate would be subject to any liability for taxes imposed pursuant to Section 4980B of the Code. There has not been any "substantial elimination of coverage" (as described in Section 4980B(f)(3) of the Code) with respect to a group health plan maintained by the Seller or any ERISA Affiliate within one year before or after the Petition Date in respect of any individual who would be an "M&A qualified beneficiary" (within the meaning of Treasury Regulation Section 54.4980B-9, Q&A-4) as a result of the Acquisition.

(h) With respect to each Benefit Plan that is subject to applicable laws other than the laws of the United States and covers only employees of the Foreign Subsidiaries (individually, a "Foreign Plan," and collectively, "Foreign Plans") to the Seller's Knowledge: (i) each Foreign Plan is in compliance in all material respects with the laws and regulations regarding employee benefits, mandatory contributions and retirement plans in each jurisdiction in which it has employees or conducts business; (ii) contributions to and payments from each Foreign Plan, which are required to be made on or prior to the Closing have been timely made; (iii) each Foreign Plan has been administered at all times, and in all material respects, in accordance with its terms; (iv) there are no pending investigations by any governmental body involving any Foreign Plan, and no pending claims (except for claims for benefits payable in the normal operation of the Foreign Plans), suits or proceedings against any Foreign Plan or asserting any rights or claims to benefits under any Foreign Plan; (v) the consummation of the transactions contemplated by this Agreement will not by itself create or otherwise result in any material liability, accelerated payment or any enhanced benefits with respect to any Foreign Plan; (vi) none of the Foreign Plans is a "registered pension plan" under applicable Canadian laws and regulations; and (vii) each Foreign Plan can be amended or terminated without any material liability to any of the Foreign Subsidiaries.

(i) To the Seller's Knowledge, Schedule 2.17(i) is a true and complete list of: (i) the plans and agreements pursuant to which any current or former employee of the Seller is entitled to receive any severance or termination payment, or retention or other similar bonus; (ii) the names of the employees or former employees who are entitled to receive such bonuses; and (iii) the amount of such bonuses.

2.18 Labor Matters. Except as otherwise set forth on Schedule 2.18 hereto:

(a) none of the active employees of the Seller and the Subsidiaries (the "Seller's Employees") is represented by a labor union that is a party to any collective bargaining agreement, and, to the Seller's Knowledge, there are currently no organizational campaigns, petitions or other unionization activities seeking recognition of a collective bargaining unit including any of the Seller's Employees; and

(b) there are no strikes, slowdowns or work stoppages pending or, to the Seller's Knowledge, threatened involving any of the Seller's Employees, and there has not been any such strike, slowdown or work stoppage within the past three (3) years.

2.19 Insurance. Schedule 2.19 sets forth a true and complete list of all insurance policies, binders of insurance or programs of self-insurance held by the Seller and its Subsidiaries relating to the Business (collectively, the "Insurance Policies"). True and complete copies of all Insurance Policies have been provided or made available to the Purchaser. No insurer under any Insurance Policy has canceled or generally disclaimed liability under any such policy or, to the Seller's Knowledge, indicated any intent to do so or not to renew any Insurance Policy except as required by state insurance law or as replaced by comparable policies. The Seller and its Subsidiaries maintain, with responsible insurance carriers, property, auto liability, workers' compensation, and general liability insurance. The Insurance Policies are in full force and effect and, except as otherwise set forth on Schedule 2.19, such Insurance Policies have been in full force and effect, without gaps, continuously for at least the past three (3) years. Neither the Seller nor any Subsidiary is in default under any of the Insurance Policies, and none have failed to give any notice or to present any claim under any such Insurance Policy in a due and timely fashion.

2.20 Suppliers and Customers. Schedule 2.20 hereto lists, by dollar volume paid for the year ended on December 31, 2002, the 10 largest suppliers and the 10 largest customers of the Seller and each of the Subsidiaries other than the suppliers and customers of the Excluded Operations. The relationships of the Seller and the Subsidiaries with such suppliers and customers are, as of the date hereof good commercial working relationships and as of the date hereof, except as set forth on Schedule 2.20 hereto, no Person listed on Schedule 2.20 within the twelve months preceding the date hereof has threatened in writing to cancel, materially reduce, or otherwise terminate, or to the Seller's Knowledge, as of the date hereof, intends to cancel, materially reduce, or otherwise terminate, its current level of business with the Seller or any of the Subsidiaries.

2.21 Interested Party Transactions. To the Seller's Knowledge, Schedule 2.21 sets forth a true, complete and correct list, as of the date hereof, of any transaction, arrangement or relationship involving an amount of $60,000 or more that any director, officer or other Affiliate of the Seller has or has had in the last three years, directly or indirectly relating to: (i) an economic interest in any Person that purchases from or sells or furnishes to, the Seller or any Subsidiary, any goods or services other than Excluded Securities; (ii) a beneficial interest in any material Contract; or (iii) any contractual or other arrangement with the Seller or any Subsidiary; provided, however, that ownership of no more than one percent (1%) of the outstanding voting stock of a publicly traded corporation shall not be deemed an "economic interest in any Person" for purposes of this Section 2.21.

2.22 Off Balance Sheet Liabilities. Schedule 2.22 sets forth a true, complete and correct list, as of the date hereof, of all material transactions, arrangements and other relationships between and/or among SHC, Inc., any of its controlled Affiliates, and any special purpose or limited purpose entity beneficially owned by or formed at the direction of SHC, Inc. or any of its controlled Affiliates.

2.23 All Assets. Except as set forth on Schedule 2.23, the Assets (other than the Excluded Assets) constitute all assets necessary for the operation of the Business in substantially the manner heretofore conducted by the Seller.

2.24 Inventory. The Seller has completed a physical inventory of the Business on or after December 31, 2002. The Assigned Inventory consists, and as of the close of business on the Closing Date, the Assigned Inventory will consist, of items which are in all material respects free of any Defect and, subject to inventory reserves set forth in the Financial Statements, of a quality and quantity usable and salable in the ordinary course of business. Since December 31, 2002, there have been no recalls or withdrawals of Inventory produced or sold by or as a part of the Business or other similar federal, state, or private actions with respect to such Assigned Inventory. All items included in the Assigned Inventory are the property of the Seller or one of its Subsidiaries. Except for Liens that will be released prior to the Closing, no items included in the Assigned Inventory have been pledged as collateral or are held by the Seller or any of its Subsidiaries on consignment from others.

2.25 Receivables. As of the date hereof, no account debtor (owing more than $25,000 to the Seller) has refused (or to the Seller's Knowledge, threatened to refuse) to pay its obligations with respect to any Assigned Account Receivable for any reason. To the Seller's Knowledge, as of the date hereof, no account debtor (owing more than $25,000 to the Seller) is insolvent or bankrupt. All Current Receivables have been generated in the ordinary course of the Business. With respect to unbilled Current Receivables in amounts greater than $25,000, there exists no material fact that would prohibit or restrict the billing of any such unbilled Accounts Receivable in the ordinary course of business. Since March 31, 2003, neither the Seller nor any of its Subsidiaries has made any material change in the selling, distribution, advertising, terms of sale or collection practices of the Business, entered into any practices, programs or long-term allowances not previously used in the ordinary course of business of the Business or, with respect to the Business, engaged in the practice of "loading" or any program, activity or other action that would reasonably be expected to result, directly or indirectly, in a trade buy-in that significantly in excess of normal customer purchasing patterns consistent with past practice over the period beginning January 1, 2002 until the date hereof.

2.26 DISCLAIMER. The representations and warranties made by the Seller in this Agreement are the exclusive representations and warranties made by the Seller. The Seller hereby disclaims any other express or implied representations and warranties. The Seller, directly or indirectly, does not make, and hereby disclaims, any representations or warranties regarding pro-forma financial information, financial projections or other forward-looking statements of the Business. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, THE SELLER MAKES NO REPRESENTATIONS OR EXPRESS OR IMPLIED WARRANTIES AS TO THE BUSINESS, THE ASSETS OR THE ASSUMED LIABILITIES, INCLUDING AS TO THEIR PHYSICAL CONDITION, USABILITY, MERCHANTABILITY, PROFITABILITY OR FITNESS FOR ANY PURPOSE.

3. Representations and Warranties of the Purchaser. The Purchaser represents and warrants to the Seller as follows:

3.1 Due Incorporation and Authority. The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Purchaser has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted, except where the failure to have such power and authority would not reasonably be expected to materially impair or delay the ability of the Purchaser to consummate the transactions contemplated hereby. The Purchaser has all requisite corporate power and authority to enter into this Agreement, carry out its obligations hereunder and consummate the transactions contemplated hereby. The execution and delivery by the Purchaser of this Agreement, the performance by the Purchaser of its obligations hereunder and the consummation by the Purchaser of the transactions contemplated hereby have been duly authorized by all requisite corporate action on the part of the Purchaser and no other corporate proceedings on the part of the Purchaser are necessary to authorize the execution and delivery of this Agreement or to consummate the other transactions contemplated hereby. This Agreement has been duly executed and delivered by the Purchaser, and, assuming the due authorization, execution and delivery hereof by the Seller, this Agreement will constitute the legal, valid and binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its terms, except to the extent enforceability may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting creditors rights generally or by general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law).

3.2 No Conflicts. The execution and delivery by the Purchaser of this Agreement, the consummation of the transactions contemplated hereby, and the performance by the Purchaser of this Agreement in accordance with its terms will not:

(a) violate the certificate of incorporation or by-laws of the Purchaser;

(b) require the Purchaser to obtain any material consents, approvals, authorizations or actions of, or make any filings with or give any notices to, any Governmental Bodies or any other Person, except for (i) the notification requirements of the HSR Act (and any foreign counterpart thereof) or (ii) consents, approvals or authorizations of, or declarations or filings with, the Bankruptcy Court;

(c) violate or result in the breach of any of the terms and conditions of, cause the termination of or give any other contracting party the right to terminate, or constitute (or with notice or lapse of time, or both, constitute) a material default under, any material Contract to which the Purchaser is a party or by or to which each of the Purchaser or any of its properties is or may be bound or subject; or

(d) violate any Requirement of Law to which the Purchaser is subject;

(e) provided, however, that each of the cases set forth in clauses (b) through (d) above is subject to exceptions that would not reasonably be expected to have, either individually or in the aggregate, a material adverse effect on the Purchaser.

3.3 Brokers. Except for Lazard Freres & Co. LLC, the fees and expenses of which will be paid by the Purchaser, no Person retained by or on behalf of the Purchaser or any of its respective Affiliates is entitled to any brokerage commissions, finders' fees or similar compensation in connection with the transactions contemplated hereby.

3.4 Financing. The Purchaser has, and at the Closing will have, sufficient available funds to consummate the transactions contemplated by this Agreement, including making all payments required pursuant to Article I. Immediately following the Closing Date, the Purchaser will have sufficient funds to operate the Business in all material respects in the ordinary course and in a manner consistent with past practice and to assume the Assumed Liabilities.

3.5 Litigation. There are no Claims pending or, to the knowledge of the Purchaser, threatened against the Purchaser, before any Governmental Body that would prevent or materially delay the consummation by the Purchaser of the transactions contemplated by this Agreement.

3.6 Independent Investigation. The Purchaser hereby acknowledges and affirms that it has conducted and completed its own investigation, analysis and evaluation of Business, that it has made all such reviews and inspections of the financial condition, results of operations, properties, assets and prospects of the Business as it has deemed necessary or appropriate, that it has had the opportunity to request all information it has deemed relevant to the foregoing from the Seller and has received responses it deems adequate and sufficient to all such requests for information, and that in making its decision to enter into this Agreement and to consummate the transactions contemplated hereby it has relied solely on (i) its own investigation, analysis and evaluation of the Business and (ii) the representations, warranties and covenants of the Seller contained in this Agreement.

4. Covenants and Agreements.

4.1 Conduct of Business. Subject to (x) any obligations of the Seller as a debtor or debtor-in-possession under the Bankruptcy Code, or (y) any order of the Bankruptcy Court or other court of competent jurisdiction that, in the case of clause (x) or (y) would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, the Seller agrees that, from the date of this Agreement until the Closing, that:

(a) except (i) as expressly permitted or required by this Agreement or (ii) as otherwise agreed to in writing by the Purchaser (which agrees to respond in a commercially reasonable time frame to any request for such agreement), the Seller shall use its commercially reasonable efforts to operate the Business in the ordinary course of business consistent with past practice and, to the extent consistent therewith, use, and

shall cause its Subsidiaries to use, commercially reasonable efforts to preserve intact the Business, keep available the service of its officers and employees and preserve its relationships with customers and suppliers.

(b) except (i) as expressly permitted or required by this Agreement or on Schedule 4.1(b), (ii) as provided under, contemplated by, or required or necessary for the consummation of the transactions under, the Sporting Goods Sale Agreements or the ETONIC Sale Agreements, or (iii) as otherwise agreed to in writing by the Purchaser (which agrees to respond in a commercially reasonable time frame to any request for such agreement and to not unreasonably withhold its agreement), none of the Seller or the Subsidiaries shall:

(i) sell or convey any of its material assets, except in the ordinary course of business consistent with past practice;

(ii) change its method of accounting or any accounting principle, method, estimate or practice, except in the ordinary course of business consistent with past practice or as may be required by GAAP or any other applicable Requirements of Law;

(iii) cancel, terminate or materially amend any Material Contract that is an Assumed Contract;

(iv) acquire or agree to acquire by merging or consolidating with, or by purchasing any equity interest in or a portion of the assets of, or by any other manner, any business or any Person or division thereof, or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to the Business;

(v) enter into any joint ventures, strategic partnerships or alliances that are material to the Business;

(vi) except for the Sporting Goods Sale Agreements and the ETONIC Sale Agreements, enter into any Contract the effect of which would be to grant to a third party any license to use any Intellectual Property;

(vii) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or reorganization, other than a plan of reorganization in the Bankruptcy Case;

(viii) except as required by Requirements of Law or Contracts currently binding on the Seller, increase any post-employment welfare benefits or welfare benefit coverage to any individual who would be an "M&A qualified beneficiary" (within the meaning of Treasury Regulation Section 54.4980B-9, Q&A 4) as a result of the Acquisition;

(ix) amend its certificates of incorporation or bylaws (or comparable instruments), or permit any Subsidiary to do the same;

(x) (A) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other Person except for obligations of Subsidiaries incurred in the ordinary course of business consistent with past practices; (B) make any loans, advances or capital contributions to or investments in any other Person (other than to Subsidiaries or customary loans or advances to employees in each case in the ordinary course of business consistent with past practices); or (C) pledge or otherwise encumber shares of its capital stock;

(xi) split, combine, or reclassify, any shares of its capital stock, or declare, set aside or pay any dividend or other distribution (whether in cash, stock, property, or any combination thereof) with respect to any shares of its capital stock or any other equity securities, or make any other actual, constructive, or deemed distribution with respect to its capital stock, or otherwise make payments to equity holders in their capacity as such (except for any distribution of the proceeds from the ETONIC Sale under the ETONIC Sale Agreements or the sale of the Sporting Goods Business under the Sporting Goods Sale Agreements);

(xii) (A) acquire, sell, lease, license or dispose of any assets or properties in any single transaction or series of related transactions having a fair market value in excess of $100,000, other than sales or licenses of its products in the ordinary course of business consistent with past practices; (B) enter into any exclusive license, distribution, marketing, sales or other agreement; (C) enter into a "development services" or other similar agreement pursuant to which it may purchase or otherwise acquire the services of another Person, other than in the ordinary course of business consistent with past practices; (E) sell, lease, license, transfer, encumber, or otherwise dispose of any Intellectual Property; or (F) knowingly, willfully or wantonly misappropriate or otherwise violate the rights of any third party intellectual property;

(xiii) (A) enter into any Contract other than in the ordinary course of business consistent with past practices that would be material to the Seller and its Subsidiaries, taken as a whole; (B) modify any standard warranty terms for and of its products or services or amend or modify any product or service warranties in effect as of the date hereof in any material manner that is adverse to it; (C) enter into any Contract that contains non-competition restrictions, including any restrictions relating to the conduct of the Business or the sale of any of the Seller's products or any geographic restrictions, in any case that would prohibit or restrict the Purchaser or any of its affiliates from utilizing the Assets as currently used in the conduct of the Business; or (D) authorize any new capital expenditure or expenditures that, individually or in the aggregate for the Seller and the Subsidiaries, exceed $100,000 other than in the ordinary course of business;

(xiv) purchase, redeem or otherwise acquire, directly or indirectly, any equity securities;

(xv) issue, deliver, sell, authorize, pledge or otherwise encumber, or agree or commit to issue, deliver, sell, authorize, pledge or otherwise encumber, any shares of capital stock, voting debt or any securities convertible into shares of capital stock or voting debt, or subscriptions, rights, warrants or options to acquire any shares of capital stock or voting debt or any securities convertible into shares of capital stock or voting debt, or enter into other agreements or commitments of any character obligating any of the Seller to issue any such securities or rights;

(xvi) prepare or fail to file any Tax Return in a manner inconsistent with past practices in preparing or filing similar Tax Returns in prior periods or, on any such Tax Return, take any position, make any election, or adopt any method that is inconsistent with positions taken, elections made or methods used in preparing or filing similar Tax Returns in prior periods, in each case, except to the extent required by applicable law; or fail to pay any Taxes when due;

(xvii) except in the ordinary course of business consistent with past practice, engage in any transaction with, or enter into any agreement, arrangement, or understanding with, directly or indirectly, any of the Seller's Affiliates other than its employees;

(xviii) alter, through merger, liquidation, reorganization, restructuring or in any other manner, the corporate structure or ownership of any Subsidiary;

(xix) revalue any assets or properties, including writing down the value of inventory or writing-off notes or accounts receivable, other than in the ordinary course of business consistent with past practices;

(xx) allow any Insurance Policy to be amended or terminated without replacing such policy with a policy providing, in the aggregate, substantially equivalent coverage, insuring comparable risks and issued by an insurance company financially comparable to the prior insurance company;

(xxi) agree in writing or otherwise to take any of the actions described in (i) through (xx) above.

(xxii) Notwithstanding anything in this Agreement to the contrary, all of the actions described in this Section 4.1 relate solely to the Business and the Purchaser acknowledges that the Seller can take any actions, in its sole and absolute discretion, relating solely to the Excluded Assets and Excluded Liabilities.

4.2 Confidentiality. Each party hereto hereby reaffirms the confidentiality letter agreement, dated September 16, 2002 (the "Confidentiality Agreement"), between the Seller and the Purchaser, and agrees to fulfill its obligations thereunder. To the extent

that a party hereto is not a party to the Confidentiality Agreement, such party hereby agrees to be bound by the confidentiality provisions contained therein. If this Agreement is, for any reason, terminated prior to the Closing, the Confidentiality Agreement shall nonetheless continue in full force and effect. The Purchaser agrees to maintain, before and after the Closing, the confidentiality of all information concerning the Seller (including the amounts paid to the Seller hereunder) except as may be required under a Requirement of Law, in which case the Purchaser shall promptly notify the Seller of any such requirement and the Seller shall be permitted to seek confidential treatment for such information. Notwithstanding anything herein to the contrary, any party to this Agreement (and each of its Representatives) may disclose to any and all Persons, without limitation of any kind, the tax treatment and tax structure of the transactions contemplated by this Agreement, and all materials of any kind (including opinions or other tax analyses) related to such tax treatment and tax structure; provided that this sentence shall not permit any Person to disclose the name of, or other information that would identify, any party to such transactions or to disclose confidential information regarding such transactions.

4.3 Expenses. Other than all HSR Act filing fees (and fees required to be paid by foreign counterparts of the HSR Act), which shall be the responsibility of the Purchaser, and except as otherwise specifically provided herein, the Purchaser and the Seller shall bear their respective expenses incurred in connection with the preparation, execution and performance of this Agreement and the transactions contemplated hereby, including all fees and expenses of their Representatives.

4.4 Public Announcements. No party to this Agreement shall make, or cause to be made, any press release or public announcement in respect of this Agreement or the transactions contemplated hereby or otherwise communicate with any news media without prior approval of the other party, which approval shall not be unreasonably withheld or delayed, unless such disclosure is required by applicable law or the rules of any stock exchange. The parties shall cooperate, using commercially reasonable efforts, as to the timing and contents of any such announcement, including any such announcement required by applicable law or the rules of any stock exchange. Notwithstanding the above, the parties shall agree as to the timing and contents of the first press release announcing this Agreement.

4.5 Access to Information.

(a) From the date hereof until the Closing, upon reasonable notice, the Seller shall, and shall cause each of its officers, directors, employees, auditors and agents to, (i) afford the officers, employees and Representatives of the Purchaser reasonable access, during normal business hours, to the offices, plants, warehouses, properties, books and records of the Seller and the Subsidiaries and (ii) furnish to the officers, employees and Representatives of the Purchaser such additional financial and operating data and other information regarding the operations of the Seller and the Subsidiaries as the Purchaser may from time to time reasonably request; provided, however, that such investigation shall not unreasonably interfere with the operations of the Seller, the Subsidiaries or any of their Affiliates; and provided further, however, that the auditors of

the Seller shall not be obliged to make any work papers available to any Person. The Confidentiality Agreement shall remain in full force and effect notwithstanding anything therein to the contrary and all information received by the Purchaser under this Section 4.5 shall be subject thereto.

(b) From the date hereof until the Closing, the Seller shall furnish to the Purchaser, as soon as reasonably practicable after the end of each fiscal month or quarter, as the case may be, such monthly or quarterly financial reports, statements and other information as the Seller customarily prepares at the end of such fiscal periods. Such information shall be prepared in accordance with the books and records of the Seller and shall fairly present the matters covered by such information.

4.6 Regulatory and Other Authorizations; Consents.

(a) Each of the parties hereto shall use its commercially reasonable efforts to (i) take, or cause to be taken, all appropriate action, and do, or cause to be done, all things necessary, proper or advisable under any Requirement of Law or otherwise to consummate and make effective the transactions contemplated by this Agreement, (ii) obtain any consents, licenses, permits, waivers, approvals, authorizations or orders required to be obtained or made in connection with the authorization, execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, including the Seller Consents and Notices, and (iii) make all filings and give any notice, and thereafter make any other submissions either required or reasonably deemed appropriate by each of the parties, with respect to this Agreement and the transactions contemplated hereby required under any Requirement of Law, including applicable securities and antitrust Requirements of Law, and the rules and regulations of any stock exchange on which the securities of any of the parties are listed or traded. Commercially reasonable efforts shall not obligate the Seller or the Purchaser to make or offer to make any payments to obtain any consents, licenses, permits, waivers, approvals, authorizations or orders.

(b) The parties hereto shall work closely and cooperatively and consult with each other in connection with the making of all such filings and notices, including by providing copies of all such documents to the non-filing party and its advisors a reasonable period of time prior to filing or the giving of notice. No party to this Agreement shall consent to any voluntary extension of any statutory deadline or waiting period or to any voluntary delay of the consummation and the transactions contemplated in this Agreement at the behest of any Governmental Body without the consent and agreement of the other parties to this Agreement, which consent shall not be unreasonably withheld or delayed. Each party shall promptly inform the others of any material communication from any Governmental Body regarding any of the transactions contemplated by this Agreement.

4.7 Further Action; Additional Assignments of Intellectual Property. Each of the parties hereto shall execute such documents and take such further actions as may be reasonably required or desirable to carry out the provisions hereof and give effect to the transactions contemplated hereby. From time to time after the Closing, the Seller shall at

the Purchaser's expense prepare all documents and take all actions reasonably necessary to further the sale and assignment of the Intellectual Property to the Purchaser hereunder. Such Intellectual Property assignments shall be in recordable form based on the local law requirements. The Purchaser assumes responsibility for and will bear the expenses of recording such Intellectual Property assignments in all jurisdictions. Following the Closing, the Seller shall have no obligation or responsibility for maintaining or prosecuting any Intellectual Property transferred to the Purchaser hereunder.

4.8 Employee Matters.

(a) From and after the date of this Agreement, the Purchaser, or any of its Affiliates, in their sole and absolute discretion and after consulting the management of the Seller, may: (i) communicate with any of the Seller's or the Subsidiaries' current employees about possible employment with the Purchaser after the Closing Date; and/or (ii) offer employment to any of the Seller's or the Subsidiaries' employees as of the Closing Date on terms and conditions which are generally comparable to those applicable to similarly situated employees of the Purchaser. It is the intent of the Purchaser to make offers of employment to a substantial number of the Seller's and the Subsidiaries' active employees on the Closing Date. Those of the employees that accept the Purchaser's offer of employment and become employed by the Purchaser are referred to in this Agreement as "Transferred Employees," as of the Closing Date. Nothing contained herein shall require the Purchaser to provide any specific form of benefit or inhibit the Purchaser's ability to establish, amend or terminate any employee benefit plan of the Purchaser following the Closing. All employment offers are subject to the satisfactory completion by the Purchaser of its customary employment interview, background checks and drug testing procedures. Nothing in this Agreement shall prevent the Purchaser from terminating the employment of any Transferred Employee at any time.

(b) To the extent that service is relevant for purposes of eligibility or vesting under any employee benefit plan, program or arrangement established or maintained by the Purchaser and provided to the Transferred Employees (excluding any equity-related plan, program or arrangement), the Purchaser shall credit the Transferred Employees under such plan, program or arrangement for service on or prior to the Closing with the Seller and its Subsidiaries as service with the Purchaser to the extent the Seller recognized such service under any comparable plan, program or arrangement of the Seller; provided, however, that Purchaser shall not be required to provide the Transferred Employees with any credit for service with the Seller and its Subsidiaries for the purpose of benefit accrual under any of the Purchaser's defined benefit plans.

(c) The Seller and its Subsidiaries acknowledge that, except as required by Requirements of Law, the Purchaser shall not assume any liability related to any Benefit Plan that is sponsored or maintained by the Seller, any Subsidiary or any ERISA Affiliate (whether former or current).

(d) The Purchaser acknowledges that to the extent the Seller and its ERISA Affiliates cease to provide any group health plan to any employee, if required by a Requirement of Law, the Purchaser shall be treated as a "successor employer" pursuant

to Treasury Regulation Section 54.4980B-9, Q&A-8(c). The Seller will notify the Purchaser in writing of the termination of any "group health plan" maintained by the Seller or any of its ERISA Affiliates and will use commercially reasonable efforts to provide to the Purchaser as soon as practicable following the Seller's decision to terminate such plan (but in no event later than 15 days following the termination of such plan) a list of the names and addresses of any individual who would be an "M&A qualified beneficiary" (within the meaning of Treasury Regulation Section 54.4980B-9, Q&A-4) under such group health plan.

(e) The Seller shall be responsible for any liabilities or obligations (i) arising under the WARN Act, if any, and (ii) resulting from or precipitated by layoffs, if any, in respect of employees of the Seller whose employment was terminated on or prior to Closing. The Purchaser shall be responsible for any liabilities or obligations arising under the WARN Act in respect of any Transferred Employees. For the sake of clarity, and without limiting any other provision of this Agreement, the parties acknowledge and agree that, except as set forth in Section 4.8(d), the Purchaser shall have no liability for the payment of any amounts due to the Seller's current or former employees under agreements with or plans of the Seller, including, without limitation, termination, severance, and retention payments and any obligation to provide health, disability, life, retirement, or other benefits (whether covered by insurance or not).

(f) The Purchaser shall pay the Signing Bonuses to the Transferred Employees set forth on Schedule 1.5(f) promptly after the Closing.

(g) In the event that the Sporting Goods Transition Services Agreement is not terminated prior to the Closing Date, and the Purchaser, therefore, assumes such Contract in accordance with Section 1.1(b), the Purchaser shall be reimbursed in an amount (the "Transitional Employee Reimbursement Amount") equal to the lesser of (i) the actual out-of-pocket expenses incurred by the Purchaser associated with the termination of the Transferred Employees whose services are no longer required to carry out the transactions contemplated by the Sporting Goods Transition Services Agreement (the "Transitional Employees") and (ii) $100,000. In order to determine the amount of the Transitional Employee Reimbursement Amount, the Purchaser shall provide the Seller, within fifteen (15) days after the termination of the Sporting Goods Transition Services Agreement, with a statement, prepared in good faith and certified by the chief financial officer of the Purchaser, that identifies (A) the terminated Transitional Employees and (B) the amount of out-of-pocket expenses incurred by the Purchaser in connection with the termination of such Transitional Employees. Upon delivery of the foregoing statement, the Purchaser shall be immediately, and no later than three (3) Business Days after delivery of such statement, reimbursed from the Indemnity Deposit (without giving effect to the Purchaser Recovery Threshold) in an amount equal to the Transitional Employee Reimbursement Amount determined in accordance with this Section 4.8(g). For the sake of clarity, only those Transferred Employees terminated within fifteen (15) days of the termination of the Sporting Goods Transition Services Agreement may be deemed by the Seller to be terminated Transitional Employees.

4.9 Bankruptcy Court Approval. No later than three (3) Business Days after the execution of this Agreement, the Seller will file a motion or motions with the Bankruptcy Court seeking entry of (a) an order of the Bankruptcy Court regarding the Acquisition establishing notice and service requirements to creditors and parties in interest with respect to the Acquisition, approving the Break-Up Fee and the Expense Reimbursement, and approving the bidding procedures (the "Bidding Procedures") set forth on Schedule 4.9 hereto (the "Bidding Procedures Order"), and (b) an order of the Bankruptcy Court approving the sale of the Assets to the Purchaser pursuant to the terms of this Agreement (the "Sale Approval Order"):

(a) The Bidding Procedures Order. The Bidding Procedures Order shall be substantially in the form (with such changes thereto as the Purchaser shall approve (such approval not to be unreasonably withheld, conditioned or delayed)) of Exhibit C hereto, and shall, among other matters:

(i) approve the Break-Up Fee and the Expense Reimbursement and provide that, if the obligation of the Seller to pay the Purchaser the Break-Up Fee and/or the Expense Reimbursement arises, such obligation shall constitute an administrative expense under Section 503(b) and 507(a)(1) of the Bankruptcy Code and shall be payable in accordance with the provisions of this Agreement without further order of the Bankruptcy Court;

(ii) approve the Bidding Procedures; and

(iii) schedule a hearing to consider entry of the Sale Approval Order and provide that notice of such hearing be given to all of the Seller's creditors, interest holders of record, the Environmental Protection Agency, all state/local environmental agencies in any jurisdiction where the Seller owns or has owned or used real property, the Internal Revenue Service, all state/local taxing authorities in jurisdictions where the Seller has or may have any tax liability, and potential other purchasers identified by the Seller and otherwise in accordance with Bankruptcy Rule 2002, and that the Seller publish notice of such hearing in the Chicopee Gazette.

(b) The Sale Approval Order. The Sale Approval Order shall be substantially in the form (with such changes thereto as the Purchaser shall approve (such approval not to be unreasonably withheld, conditioned or delayed)) of Exhibit D hereto, and shall, among other matters:

(i) approve the Acquisition on the terms set forth herein;

(ii) find that, as of the Closing Date, the transactions contemplated by this Agreement effect a legal, valid, enforceable and effective sale and transfer of the Assets to the Purchaser and shall vest the Purchaser with title to the Assets free and clear of all Encumbrances, except as expressly provided by this Agreement;

(iii) find that the consideration provided by the Purchaser pursuant to this Agreement constitutes reasonably equivalent value and fair consideration for the Assets;

(iv) find that, as of the Closing Date, the Contracts to be assumed by the Seller and assigned to the Purchaser pursuant to this Agreement will have been duly assigned to the Purchaser in accordance with Section 365 of the Bankruptcy Code;

(v) find that the Purchaser is a good faith purchaser of the Assets pursuant to Section 363(m) of the Bankruptcy Code;

(vi) order that the Contracts to be assumed by the Seller and assigned to the Purchaser pursuant to this Agreement will be transferred to, and remain in full force and effect for the benefit of the Purchaser, notwithstanding any provision in any such Contract or lease or any Requirement of Law (including those described in Sections 365(b)(2) and (f) of the Bankruptcy Code) that prohibits, restricts or limits in any way such assignment or transfer;

(vii) approve any other agreement to the extent provided by this Agreement;

(viii) find that the Seller gave due and proper notice of the Acquisition to each party entitled thereto;

(ix) authorizes the Seller to assume and assign to the Purchaser each of the Assumed Contracts;

(x) find that the Purchaser has satisfied all requirements under Sections 365(b)(1) and 365(f)(2) of the Bankruptcy Code to provide adequate assurance of future performance of the Assumed Contracts and that the Purchaser has guaranteed the obligations of any assign which has assumed an Assumed Contract;

(xi) authorize and direct the Seller to pay all Cure Costs under the Assumed Agreements out of the proceeds of the Acquisition;

(xii) enjoin and forever bar the nondebtor party or parties to each Assumed Contract from asserting against the Purchaser or any of the Assets: (a) any default existing as of the Closing Date and (b) any objection to the assumption and assignment of such nondebtor party's Assumed Contract;

(xiii) find that, to the extent permitted by law, the Purchaser is not a successor to the Seller or its bankruptcy estate by reason of any theory of law or equity, and the Purchaser shall not assume or in any way be responsible for any liability or obligation of any of the Seller and/or its bankruptcy estate, except as otherwise expressly provided in this Agreement; and

(xiv) order that, notwithstanding the provisions of Federal Rules of Bankruptcy Procedure 6004(g) and 6006(d), the Sale Approval Order is not stayed and is effective immediately upon entry.

4.10 Subsidiary Compliance. The Seller shall cause its Subsidiaries which are not a party hereto, if any, to comply with all of the Subsidiaries' obligations under or relating to this Agreement.

4.11 Books and Records.

(a) The Purchaser agrees that it shall preserve and keep all books and records in respect of the operations of the Business in the Purchaser's possession for a period of at least seven (7) years from the Closing Date. After such seven-year period, if at any time the Purchaser shall desire to dispose of any of such books and records, then the Purchaser shall provide written notice to the Seller at least ninety days prior to such intended disposition and shall provide the Seller with an opportunity, at its cost and expense, to remove and retain all or any part of such books and records as the Seller may select. At any time prior to such disposition, Representatives of the Seller shall, upon reasonable notice, have access thereto during normal business hours to examine, inspect and copy such books and records.

(b) If, in order to properly prepare documents required to be filed with Governmental Bodies or its financial statements, it is necessary that either party hereto or any successors thereto be furnished with additional information relating to the Business, the Assets or the Assumed Liabilities, and such information is in the possession of the other party hereto or any successor thereto or any of their respective Affiliates, such party agrees to use commercially reasonable efforts to furnish or cause to be furnished such information to such other party, at the reasonable cost and expense of the party being furnished such information.

4.12 Directors, Officers and Affiliates. Except in the case of fraud, the Purchaser agrees that none of the officers, directors and Affiliates of the Seller or any of the Subsidiaries as of the Closing Date shall have any Liability or responsibility to the Purchaser for (and the Purchaser unconditionally releases such officers, directors and Affiliates from) any Liability:

(a) arising out of, or relating to, the organization, management, operation or conduct of the businesses of the Seller or any of the Subsidiaries relating to any matter, occurrence, action or activity prior to the Closing Date;

(b) relating to this Agreement and the transactions contemplated hereby;

(c) arising out of or due to any inaccuracy or breach of any representation or warranty or the breach of any covenant, undertaking or other agreement of the Seller contained in this Agreement, the Schedules hereto or in any certificate contemplated hereby and delivered by the Seller in connection herewith; or

(d) relating to any information (whether written or oral), documents or materials furnished by the Seller.

4.13 Tax Matters.

(a) Sales, Use and Other Transfer Taxes. The Purchaser shall provide the Seller with resale exemption certificates as is appropriate. In accordance with Section 1146(c) of the Bankruptcy Code, the parties acknowledge that the making or delivery of any instrument of transfer, including the filing of any deed or other document of transfer to evidence, effectuate or perfect the rights, transfers and interest contemplated by this Agreement, shall be in contemplation of a plan or plans of reorganization to be confirmed in the Bankruptcy Case, and as such shall be free and clear of any and all transfer Tax, stamp Tax or similar Taxes. The instruments transferring the Assets to the Purchaser shall contain the following endorsement:

> "Because this [instrument] has been authorized pursuant to Order of the United States Bankruptcy Court for the District of Delaware, in contemplation of a plan of reorganization of the Seller, it is exempt from transfer taxes, stamp taxes or similar taxes pursuant to 11 U.S.C. Section 1146(c)."

In the event real estate transfer Taxes are required to be paid in order to record the deeds to be delivered to the Purchaser in accordance herewith, or in the event any such Taxes are assessed at any time thereafter, such real estate transfer Taxes incurred as a result of the transactions contemplated hereby shall be paid by the Purchaser. The Purchaser shall also be responsible for all of the excise, sales, value added, use, registration, stamp, franchise, transfer and similar Taxes, levies, charges and fees incurred in connection with the transactions contemplated by this Agreement and which are not otherwise exempt pursuant to the applicable sections of the Bankruptcy Code. The Seller shall be responsible for all income, profit, and similar taxes incurred or imposed with respect to the sale of the Assets by the Seller. The parties hereto agree to cooperate in the filing of all necessary documentation and all Tax Returns with respect to all such Taxes, including any available pre-sale filing procedure.

(b) Wage Reporting. The Purchaser and the Seller agree to utilize, or cause their respective Affiliates to utilize, the standard procedure set forth in Revenue Procedure 96-60, 1996-2 C.B. 399, with respect to wage reporting.

(c) Cooperation. The parties hereto shall cooperate with each other and with each other's respective Representatives, including accounting firms and legal counsel, in connection with the preparation or audit of any Tax Return(s) and any Tax claim or litigation in respect of the Assets and Assumed Liabilities that include whole or partial taxable periods, activities, operations or events on or prior to the Closing Date, which cooperation shall include, but not be limited to, making available employees, if any, for the purpose of providing testimony and advice, or original documents, or either of them.

4.14 Cure Costs. The Seller shall be exclusively responsible for payment all Cure Costs.

4.15 Notification of Certain Matters. Each party promptly shall provide the other written notice of (a) the occurrence or nonoccurrence of any event the occurrence or nonoccurrence of which has caused or would be likely to cause any representation or warranty contained in this Agreement to become untrue or inaccurate such that the conditions set forth in Sections 5 and 6, as applicable, would not be satisfied and (b) any failure of the Seller or the Purchaser, as the case may be, to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it hereunder such that the conditions set forth in Sections 5 and 6, as applicable, would not be satisfied; provided, however, that the delivery of any notice pursuant to this Section 4.15 shall not cure such breach or non-compliance or limit or otherwise affect the remedies available hereunder to the party receiving such notice; provided further, however, that if such notified party consummates the transactions herein after waiving satisfaction of the condition set forth in Section 5.1 or 6.1, as the case may be, such consummation will be deemed to cure such breach or non-compliance and such notified party shall be deemed to waive any remedies hereunder to the extent of such notification. For the sake of clarity, in accordance with Section 5.1 and Section 6.1, if a party notifies the other of a breach of one or more representations or warranties, but such breach or breaches do not, individually or in the aggregate, constitute a Material Adverse Effect, as to the Seller, or a material adverse effect, as to the Purchaser (each such breach, if any, being referred to herein as a "Minor Deficiency"), the Purchaser or the Seller, as the case may be, will be required, in accordance with Section 5.1 or 6.1, as applicable, to consummate the transactions contemplated by this Agreement (assuming that all other enumerated conditions are satisfied). In no event shall the notification of, or the consummation of the transactions contemplated by this Agreement with notice of, a Minor Deficiency be deemed to be a waiver of such Minor Deficiency, or limit or otherwise affect the remedies available hereunder to the party having notice of such Minor Deficiency after the Closing.

4.16 Title Insurance. The Seller shall use commercially reasonable efforts to obtain:

(i) an ALTA Owner's Policy of Title Insurance (with no exclusion for creditor's rights) issues by Chicago Title Company for each parcel of Owned Real Property listed on Schedule 4.16, with liability in the amount of that portion of the Purchase Price allocated to such parcel of Owned Real Property, insuring fee title in the Owned Real Property as vested in the Purchaser subject only to those matters as may have been specifically approved by the Purchaser; and

(ii) an ALTA Leasehold Owner's Policy of Title Insurance (with no exclusion for creditor's rights) issued by Chicago Title Company for each parcel of Leased Real Property, listed on Schedule 4.16, with liability in the amount of that portion of the Purchase Price allocated to such parcel of Leased Real Property, insuring leasehold title in the Leased Real Property as vested in the

Purchaser subject only to those matters as may have been specifically approved by the Purchaser.

4.17 Name Change. From and after the Closing, the Purchaser shall own all of the corporate names, trade names and trademarks included in the Intellectual Property, including, without limitation, the "Top-Flite" name, together with all related designs (collectively, the "Top-Flite Name"). The Seller and Top-Flite, Inc. shall, and shall cause each Subsidiary to, promptly, following the Closing Date, but in no event later than 6 months, change its name so that it ceases to use the Top-Flite Name.

4.18 Performance by the Foreign Subsidiaries. The Seller shall take all actions necessary to ensure that the Foreign Subsidiaries shall perform and comply with this Agreement and shall (and cause any of the Foreign Subsidiaries, if applicable, to) take such further actions as may be reasonably required to carry out the provisions hereof and give effect to the transactions contemplated by this Agreement. The Foreign Subsidiaries shall not be a "Seller" hereunder. The Seller shall convey as soon as practicable after the Closing any Assets of the Foreign Subsidiaries not conveyed at the Closing by executing an instrument of transfer substantially in the form of the Bill of Sale. The Purchaser acknowledges that certain or all of the Assets of the Foreign Subsidiaries may not be conveyed at the Closing and that the failure to convey such Assets will not breach any representation and warranty, covenant or condition herein. Until such Assets of the Foreign Subsidiaries have been conveyed, the Seller shall cooperate, and shall cause Foreign Subsidiaries to cooperate, to provide the Purchaser with the benefit of such Assets and the Purchaser shall cooperate to assume the obligations associated with such Assets. If a material amount of the Assets held by the Foreign Subsidiaries cannot be transferred at the Closing, the parties agree that the payment of a portion of the Closing Cash Payment (the exact amount of which shall be mutually agreed upon by the parties based upon the facts and circumstances then existing) shall be delayed until such time as such Assets are successfully transferred to the Purchaser.

5. Conditions Precedent to the Obligation of the Purchaser. The obligation of the Purchaser to consummate the transactions contemplated by this Agreement is subject to the fulfillment on or prior to the Closing Date of each of the following conditions, any one or more of which (to the extent permitted by law) may be waived by the Purchaser:

5.1 Representations and Warranties; Covenants. The representations and warranties of the Seller contained in this Agreement shall be true and correct (without giving effect to any materiality or Material Adverse Effect qualifiers set forth therein), as of the date of this Agreement and as of the Closing with the same force and effect as if made as of the Closing, other than such representations and warranties that are made as of another date, which representations and warranties shall be true and correct as of such date, except where the failure of the representations and warranties described in this Section 5.1 to be true and correct would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect. The covenants and agreements contained in this Agreement to be complied with by the Seller at or before the Closing

shall have been complied with in all material respects. The Purchaser shall have received a certificate of the Seller to such effect signed by a duly authorized officer thereof.

5.2 No Order. No Governmental Body shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, injunction or other order (whether temporary, preliminary or permanent) which is in effect and has the effect of making the transactions contemplated by this Agreement illegal or otherwise restraining or prohibiting consummation of such transactions and which are not satisfied or resolved or preempted by the Sale Approval Order.

5.3 HSR Act Filing. Each party to this Agreement required to file a notification and report form in compliance with the HSR Act (and foreign counterparts thereof) shall have filed such form and the applicable waiting period with respect to each such form (including any extensions thereof) shall have expired or been terminated.

5.4 Bankruptcy Filing. The Bankruptcy Case shall not have been dismissed or converted to Chapter 7 of the Bankruptcy Code and no trustee shall have been appointed. The Bankruptcy Court shall have entered the Sale Approval Order and it shall not have been vacated, reversed or stayed.

5.5 Consents. All material consents and notices required to be obtained or made to enable the Seller and the Subsidiaries to assign and the Purchaser to assume the Assigned Contracts listed on Schedule 5.5 shall have been obtained or made by the Seller or the Subsidiaries.

5.6 Closing Documents. The Seller shall have delivered to the Purchaser on the Closing Date the documents required to be delivered pursuant to Section 1.9.

5.7 Releases. The Seller shall release, and shall execute such documents as are necessary or appropriate to evidence such release, all Transferred Employees, as of the time of the Closing, from any and all noncompetition and nonsolicitation restrictions to which such transferred Employees may be subject pursuant to any agreement with or plan of the Seller.

6. Conditions Precedent to the Obligation of the Seller to Close. The obligation of the Seller to consummate the transactions contemplated by this Agreement is subject to the fulfillment on or prior to the Closing Date of each of the following conditions, any one or more of which (to the extent permitted by law) may be waived by the Seller:

6.1 Representations and Warranties; Covenants. The representations and warranties of the Purchaser contained in this Agreement shall be true and correct (without giving effect to any materiality or material adverse effect to the Purchaser qualifiers set forth therein), as of the date of this Agreement and as of the Closing, with the same force and effect as if made as of the Closing, other than such representations and warranties that are made as of another date, which representations and warranties shall be true and correct as of such date, except where failure of the representations and warranties

described in this Section 6.1 to be true and correct would not, individually or in the aggregate, reasonably be expected to result in a material adverse effect to the Purchaser. The covenants and agreements contained in this Agreement to be complied with by the Purchaser at or before the Closing shall have been complied with in all material respects. The Seller shall have received a certificate of the Purchaser to such effect signed by a duly authorized officer thereof.

6.2 No Order. No Governmental Body shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, injunction or other order (whether temporary, preliminary or permanent) which is in effect and has the effect of making the transactions contemplated by this Agreement illegal or otherwise restraining or prohibiting consummation of such transactions and which are not satisfied or resolved or preempted by the Sale Approval Order.

6.3 HSR Act Filing. Each party to this Agreement required to file a notification and report form in compliance with the HSR Act (and foreign counterparts thereof) shall have filed such form and the applicable waiting period with respect to each such form (including any extensions thereof) shall have expired or been terminated.

6.4 Sale Approval Order. The Bankruptcy Court shall have entered the Sale Approval Order, and the Sale Approval Order shall have become a Final Order and not have been vacated, reversed or stayed.

6.5 Closing Documents. The Purchaser shall have delivered to the Seller on the Closing Date the documents and payments required to be delivered by it pursuant to Section 1.10.

7. Termination of Agreement.

7.1 Termination Prior to Closing; Break-Up Fee. Notwithstanding anything herein to the contrary, this Agreement may be terminated, and the transactions contemplated by this Agreement abandoned, upon notice by the terminating party to the other party:

(a) at any time before the Closing, by the mutual written consent of the Seller and the Purchaser;

(b) by either the Seller or the Purchaser if the Closing shall not have occurred prior to October 31, 2003; provided, however, that the right to terminate this Agreement under this Section 7.1(b) shall not be available to any party whose failure to fulfill any obligation under this Agreement shall have been the cause of, or shall have resulted in, the failure of the Closing to occur prior to such date;

(c) at any time before the Closing, by the Purchaser on the one hand, or the Seller, on the other hand, in the event of a material breach of this Agreement by the non-terminating party or if the satisfaction of any condition to such party's obligations under this Agreement becomes impossible with the use of commercially reasonable

efforts and the failure of such condition to be satisfied is not caused by a breach by the terminating party;

(d) by either the Seller or the Purchaser, if the Bankruptcy Court approves a sale, transfer or other disposition by the Seller of all or substantially all of the assets of the Seller relating to the Business or all or a substantial part of any of the Assets to a Person (or group of Persons) other than the Purchaser (a "Competing Transaction");

(e) by the Purchaser (provided that the Purchaser is not then in material breach of any provision of this Agreement), if any of the following shall occur:

(i) the Bankruptcy Case is dismissed or converted to chapter 7 of the Bankruptcy Code or a trustee is appointed for the Seller;

(ii) the Bidding Procedures Order shall not have been entered on or before the thirtieth (30th) day after the date hereof; provided, however, that the Purchaser shall not be entitled to exercise its rights under this clause (ii) later than five (5) Business Days after such thirty day period has expired or if the Bidding Procedures Order has been entered by the Bankruptcy Court prior to the Purchaser exercising such rights;

(iii) if the Sale Approval Order has not been entered by the Bankruptcy Court within seventy-five (75) days after the date hereof; provided, however, that the Purchaser shall not be entitled to exercise its rights under this clause (iii) later than five (5) Business Days after such seventy-five day period has expired or if the Sale Order has been entered by the Bankruptcy Court prior to the Purchaser exercising such rights.

7.2 Termination Payments.

(a) In the event that this Agreement is terminated under Section 7.1(b), (c) (with respect to Sections 7.1(b) and (c), only if and to the extent that the Seller has not used commercially reasonable efforts to consummate the transactions herein) or (e), and provided that the Purchaser is not in material breach of any provision of this Agreement prior to such termination, the Seller shall be obligated to pay the Purchaser an amount in cash equal to the total amount of fees, costs and expenses incurred by the Purchaser in connection with the preparation, execution and performance of this Agreement and the transactions contemplated hereby, including without limitation all filing and notification fees, and all fees and expenses of the Purchaser's Representatives (the "Expense Reimbursement"). The Expense Reimbursement shall not exceed $1,250,000 (the "Expense Reimbursement Limit"). For purposes of both this Section 7.2(a) and Section 7.2(b) below, and provided that the Expense Reimbursement does not exceed the Expense Reimbursement Limit, the Seller acknowledges and agrees that the Expense Reimbursement is a reasonable amount given the size and complexity of the transactions contemplated by this Agreement. The Expense Reimbursement shall be paid by wire transfer or other means acceptable to the Purchaser not later than five (5) Business Days following the Seller's receipt of written notice from the Purchaser describing the fees and

expenses which constitute the Expense Reimbursement in reasonable detail (the "Expense Reimbursement Notice").

(b) In the event that this Agreement is terminated under Section 7.1(d), and provided that the Purchaser is not in material breach of any provision of this Agreement prior to such termination, the Seller shall: (i) pay the Purchaser, in cash, the Expense Reimbursement (up to the Expense Reimbursement Limit) by wire transfer or other means acceptable to the Purchaser not later than five (5) Business Days following receipt by the Seller of the Expense Reimbursement Notice; and (ii) pay to the Purchaser, in cash, the sum of $4,375,000 (the "Break-up Fee") not later than the earlier of: (A) five (5) Business Days after the closing of a Competing Transaction and (B) five (5) Business Days after the date of the termination of a Competing Transaction prior to closing; provided that the Break-up Fee shall only be payable by the Seller pursuant to Section 7.2(b)(ii)(B) if the Seller retains a good faith deposit remitted to the Seller by a purchaser in a Competing Transaction. The Purchaser acknowledges and agrees that if the Bidding Procedures, other than the amount of the Break-Up Fee and/or the Expense Reimbursement, set forth in the Bidding Procedures Order are approved and if payment of the full amount of such Break-Up Fee and/or Expense Reimbursement are otherwise assured to the Purchaser, then the Purchaser may not terminate this Agreement pursuant to Section 7.1(e)(ii).

(c) The Purchaser acknowledges that the Purchaser shall not be relieved of its obligations hereunder if approval by the Bankruptcy Court of the provisions of Section 7.2(b)(ii)(B) herein is not obtained but payment of the Break-Up Fee in the circumstances set forth in Section 7.2(b)(ii)(B) is otherwise assured.

7.3 Survival After Termination. If this Agreement is terminated pursuant to Section 7.1 and the transactions contemplated hereby are not consummated, this Agreement shall become null and void and have no further force or effect, except that any such termination shall be without prejudice to the rights of any party on account of the nonsatisfaction of the conditions set forth in Articles 5 and 6 resulting from the intentional or willful breach or violation of the representations, warranties, covenants or agreements of another party under this Agreement. Notwithstanding anything in this Agreement to the contrary, the provisions of Sections 4.2, 4.3, 7.2, this Section 7.3, and Section 9 shall survive any termination of this Agreement.

7.4 Waiver. Each party hereto may (a) extend the time for the performance of any of the obligations or other acts of the other party hereto, (b) waive any inaccuracies in the representations and warranties of the other party contained herein or in any document delivered pursuant hereto, (c) waive compliance with any of the agreements of the other party contained herein, or (d) waive satisfaction of any condition to its obligations hereunder. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party to be bound thereby.

8. Indemnification.

8.1 Indemnification by the Seller. Subject to Section 4.15 and to the extent provided in this Article VIII, from and after the Closing Date, the Seller shall indemnify, defend and hold harmless the Purchaser's Indemnified Persons, and each of them, from and against any Losses incurred or suffered by the Purchaser's Indemnified Persons as a result of or arising from:

(a) any breach of any representation or warranty of the Seller;

(b) the breach of any covenant, agreement or other obligation of the Seller set forth in this Agreement;

(c) the Excluded Liabilities;

(d) payments to be made under the Infiniti Settlement Agreement with regard to sales made on or before June 30, 2004;

(e) the Seller's pro rata portion of the Year End Bonuses paid by the Purchaser and calculated in accordance with Section 1.5(e);

(f) any payments required to be paid by the Seller pursuant to Section 1.6(d);

(g) any payments required to be paid by the Seller pursuant to Section 1.7(c); and

(h) any payments required to be paid by the Seller pursuant to Section 4.8(g).

8.2 Seller Limitations. Notwithstanding anything in this Agreement to the contrary, in no event shall any of the Purchaser's Indemnified Persons recover, or seek to recover, by claim for indemnification or otherwise, any Losses until:

(a) notice thereof shall have been given by or on behalf of any of the Purchaser's Indemnified Persons to the Seller in the manner provided in Section 8.5; and

(b) the aggregate of all Losses recoverable by the Purchaser's Indemnified Persons exceeds $750,000 (the "Purchaser Recovery Threshold"), in which event all Losses in excess of the Purchaser Recovery Threshold shall be recoverable by the Purchaser's Indemnified Persons in accordance with the terms of this Agreement; provided, that no loss exceeding the Indemnity Deposit shall be recoverable; and provided further that amounts payable by the Seller pursuant to Sections 8.1(d), (e), (f), (g) and (h): (A) shall not be subject to the Purchaser Recovery Threshold; (B) shall be paid promptly out of the Indemnity Deposit in accordance with the Indemnity Escrow Agreement, and (C) shall not be included in the calculation of determining whether the aggregate of all Losses recoverable by the Purchaser's Indemnified Parties for claims made pursuant to Sections 8.1(a), (b), and (c) exceeds the Purchaser Recovery Threshold.

(c) the obligations of the Seller under Section 8.1 shall be deemed to be waived by the Purchaser's Indemnified Persons to the extent of any waiver of Section 6.1 as provided in Section 4.15.

The Purchaser acknowledges and agrees that the Indemnity Deposit is the sole source of funding for any Claims for indemnification for the Purchaser Indemnified Parties and under no circumstances shall any Purchaser Indemnified Party be entitled to be indemnified to the extent the Losses exceed the Indemnity Deposit.

8.3 Indemnification by the Purchaser. Subject to Section 4.15 and to the extent provided in this Article VIII, from and after the Closing Date, the Purchaser shall indemnify, defend and hold harmless the Seller's Indemnified Persons, and each of them, from and against any Losses incurred or suffered by the Seller's Indemnified Persons as a result of or arising from:

(a) any breach in any representation or warranty of the Purchaser;

(b) the breach of any covenant, agreement or other obligation of the Purchaser set forth in this Agreement;

(c) the Assumed Liabilities; and

(d) any payments required to be paid by the Purchaser pursuant to Section 1.7(c).

8.4 Purchaser's Limitations. Notwithstanding anything in this Agreement to the contrary, in no event shall any of the Seller's Indemnified Persons recover, or seek to recover, by claim for indemnification or otherwise, any Losses until:

(a) notice thereof shall have been given by or on behalf of any of the Seller's Indemnified Persons to the Purchaser in the manner provided in Section 8.5;

(b) the aggregate of all Losses recoverable by the Seller's Indemnified Persons exceeds $750,000 (the "Seller Recovery Threshold"), in which event all Losses in excess of the Seller Recovery Threshold shall be recoverable by the Seller's Indemnified Persons in accordance with the terms of this Agreement; provided that amounts payable by the Purchaser pursuant to Section 8.3(d): (A) shall not be subject to the Seller Recovery Threshold; (B) shall be paid promptly by the Purchaser; and (C) shall not be included in the calculation of determining whether the aggregate of all Losses recoverable by the Seller's Indemnified Parties for claims made pursuant to Section 8.3(a), (b), and (c) exceeds the Seller Recovery Threshold; and

(c) the obligations of the Purchaser under Section 8.3 shall be deemed to be waived by the Seller's Indemnified Persons to the extent of any waiver of Section 5.1 as provided in Section 4.15.

8.5 Notice and Procedure. All claims for indemnification by any Indemnified Party against an Indemnifying Party under this Article VIII shall be asserted and resolved as follows:

(a) (i) If any claim or demand for which an Indemnifying Party would be liable for Losses to an Indemnified Party is alleged or asserted by a Person other than any of Purchaser's Indemnified Persons or any of Seller's Indemnified Persons (a "Third Party Claim"), the Indemnified Party shall deliver written notice (a "Claim Notice") promptly to the Indemnifying Party, together with a copy of all papers served, if any, and specifying the nature of and alleged basis for the Third Party Claim and, to the extent then feasible, the alleged amount or the estimated amount of the Third Party Claim. If the Indemnified Party fails to deliver the Claim Notice to the Indemnifying Party within twenty (20) days after the Indemnified Party receives notice of such Third Party Claim, the Indemnifying Party will not be obligated to indemnify the Indemnified Party with respect to such Third Party Claim if, and only to the extent that, the Indemnifying Party's ability to defend the Third Party Claim has been prejudiced by such failure. The Indemnifying Party will notify the Indemnified Party within thirty (30) days after receipt of the Claim Notice (the "Notice Period") whether the Indemnifying Party intends, at the sole cost and expense of the Indemnifying Party, to defend the Indemnified Party against the Third Party Claim. Should the Indemnifying Party elect to assume the defense of a Third Party Claim, the Indemnifying Party shall not be liable to the Indemnified Party for any legal expenses subsequently incurred by the Indemnified Party in connection with the defense thereof, except as provided by Section 8.5(a)(ii).

(i) If the Indemnifying Party notifies the Indemnified Party within the Notice Period that the Indemnifying Party intends to defend the Indemnified Party against the Third Party Claim, then the Indemnifying Party will have the right to defend, at its sole cost and expense, the Third Party Claim by all appropriate proceedings, which proceedings will be diligently prosecuted by the Indemnifying Party to a final conclusion or settled at the discretion of the Indemnifying Party (with the consent of the Indemnified Party, which shall not be unreasonably withheld or delayed). The Indemnifying Party will have full control of such defense and proceedings; provided, however, that the Indemnified Party may file during the Notice Period, at the sole cost and expense of the Indemnified Party, any motion, answer or other pleading that the Indemnified Party may deem necessary or appropriate to protect its interests and not prejudicial to the Indemnifying Party (it being understood and agreed that if an Indemnified Party takes any such action that is prejudicial or conclusively causes a final adjudication that is materially adverse to the Indemnifying Party (including, but not limited to, any admission of any liability with respect to, or settlement, compromise or discharge of, such Third Party Claim without the Indemnifying Party's prior written consent), the Indemnifying Party will be relieved of its obligations hereunder with respect to that portion of the Third Party Claim prejudiced by the Indemnified Party's action); provided, further, however, that, if requested by the Indemnifying Party, the Indemnified Party shall cooperate, at the sole cost and expense of the Indemnifying Party, with the Indemnifying Party and its counsel in contesting any Third Party Claim that the Indemnifying Party elects to contest or,

if appropriate in the judgment of the Indemnified Party, in making any counterclaim or cross-claim against any Person (other than the Indemnified Party). Such cooperation shall include the retention and (upon the Indemnifying Party's request) the provision to the Indemnifying Party of records and information that are reasonably relevant to such Third Party Claim, and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided thereunder. The Indemnified Party may participate in, but not control, any defense or settlement of any Third Party Claim assumed by the Indemnifying Party pursuant to this Section 8.5(a)(ii) and, except as provided in this Section 8.5(a)(ii), the Indemnified Party will bear its own costs and expenses with respect to such participation. Notwithstanding the foregoing, the Indemnifying Party may not assume the defense of the Third Party Claim if (1) the Persons against whom the claim is made, or any impleaded Persons, include both the Indemnifying Party and any Indemnified Party, and (2) representation of both such Persons by the same counsel would be inappropriate due to conflicting interests between them, in which case any Indemnified Party shall have the right to defend the Third Party Claim and to employ counsel at the expense of the Indemnifying Party.

(ii) If the Indemnifying Party fails to notify the Indemnified Party within the Notice Period that the Indemnifying Party intends to defend the Indemnified Party against the Third Party Claim, or if the Indemnifying Party gives such notice but fails to diligently prosecute or settle the Third Party Claim, or if the Indemnifying Party fails to give any notice whatsoever within the Notice Period, then the Indemnified Party will have the right (but not the obligation) to defend, at the sole cost and expense of the Indemnifying Party, the Third Party Claim by all appropriate proceedings, which proceedings will be diligently prosecuted by the Indemnified Party to a final conclusion or settled at the discretion of the Indemnified Party. In any such instance, the Indemnified Party will have full control of such defense and proceedings, including any compromise or settlement thereof; provided, however, that, if requested by the Indemnified Party, the Indemnifying Party shall cooperate, at the sole cost and expense of the Indemnifying Party, with the Indemnified Party and its counsel in contesting the Third Party Claim which the Indemnified Party is contesting, or, if appropriate and related to the Third Party Claim in question, in making any counterclaim or cross claim against any Person (other then the Indemnifying Party).

(iii) If the Indemnifying Party notifies the Indemnified Party within the Notice Period that the Indemnifying Party disputes its obligation to indemnify the Indemnified Party against the Third Party Claim, and if such dispute is resolved in favor of the Indemnifying Party, the Indemnifying Party will not be required to bear the costs and expenses of the Indemnified Party's defense pursuant to Section 8.5(a) or of the Indemnifying Party's participation therein at the Indemnified Party's request, and the Indemnified Party will reimburse the Indemnifying Party in full for all reasonably incurred costs and expenses.

(b) In the event any Indemnified Party should have a claim against any Indemnifying Party that is not a Third Party Claim, the Indemnified Party shall deliver a written notice (an "Indemnity Notice") with reasonable promptness to the Indemnifying Party specifying the nature of and specific basis for the claim and, to the extent then feasible, the amount or the estimated amount of the claim. The failure by any Indemnified Party to give timely notice referred to in the preceding sentence shall not impair such Person's rights hereunder except to the extent that an Indemnifying Party demonstrates that it has been significantly prejudiced thereby. If the Indemnifying Party does not notify the Indemnified Party within thirty (30) days following its receipt of the Indemnity Notice that the Indemnifying Party disputes its obligation to indemnify the Indemnified Party hereunder, the claim will be conclusively deemed a liability of the Indemnifying Party hereunder.

(c) If the Indemnifying Party timely disputes its liability with respect to a claim described in a Claim Notice or an Indemnity Notice, the Indemnifying Party and the Indemnified Party shall proceed promptly and in good faith to negotiate a resolution of such dispute within sixty (60) days following receipt of the Claim Notice or Indemnity Notice.

(d) Except where liability is disputed pursuant to Section 8.5(c), the Indemnifying Party shall pay the amount of any liability to the Indemnified Party within thirty (30) days following the final resolution of any Third Party Claim or any such other Claim by the Indemnified Party. In the event the Indemnified Party is not paid in full for its claim in a timely manner after the Indemnifying Party's obligation to indemnify and the amount thereof has been determined, the amount due shall bear interest from the date that the Indemnifying Party received the Claim Notice or the Indemnity Notice until paid at the Discount Rate provided, and in addition to any other rights it may have against the Indemnifying Party, the Indemnified Party shall have the right to set-off the unpaid amount of such Claim against any amounts owed by it to the Indemnifying Party.

(e) Any estimated amount of a Claim submitted in a Claim Notice or an Indemnity Notice shall not be conclusive of the final amount of such Claim, and the giving of a Claim Notice when an Indemnity Notice is properly due, or the giving of an Indemnity Notice when a Claim Notice is properly due, shall not impair such Indemnified Party's rights hereunder except to the extent that an Indemnifying Party demonstrates that it has been prejudiced thereby.

8.6 Remedies. The indemnification provisions of this Article VIII shall be the sole and exclusive remedy of the parties following the Closing, including for any Claims for the recovery of Losses, whether directly or by way of contribution, for any and all breaches or alleged breaches of any representation, warranties, covenants or agreements of the parties or other provision of this Agreement or the transactions contemplated hereby other than for claims of, or causes of action arising from fraud. Under no circumstances shall any Indemnified Party be entitled to be indemnified for punitive or other similar damages.

8.7 Survival of Representations; Indemnity Periods. Notwithstanding any right of the Purchaser (whether or not exercised) to investigate the Business or any right of any party (whether or not exercised) to investigate the accuracy of the representations and warranties of the other party contained in this Agreement, the Seller has, on the one hand, and the Purchaser has, on the other hand, the right to rely fully upon the representations, warranties, covenants and agreements of the other contained in this Agreement. The representations and warranties in this Agreement made by the Seller and the Purchaser respectively will survive the Closing until the one year anniversary of the Closing Date (the "Survival Period"); provided that:

(a) any representation, warranty, covenant or agreement that would otherwise terminate in accordance with the Survival Period shall survive if a Claim Notice or an Indemnity Notice , in either case specifying in reasonable detail the nature of the Claim, shall have been given on or prior to the expiration of such Survival Period, until the related Claim for indemnification has been satisfied or otherwise resolved as provided in this Section 8; provided, however, that all Claims for indemnification specified in the Claim Notice or Indemnity Notice must be asserted prior to the expiration of the Survival Period and if any such Claim is not made before the expiration of the Survival Period, the Indemnified Party shall not be entitled to indemnification; and

(b) covenants and agreements to be performed after the Closing Date will survive the Closing for the term specified therein, or, if no term is specified, indefinitely.

9. Miscellaneous.

9.1 Certain Definitions.

(a) As used in this Agreement, the following terms have the following meanings:

"ACCOUNTS RECEIVABLE" means accounts receivable and all trade receivables arising primarily in connection with the operation or conduct of the Business or the Subsidiaries, together with any unpaid interest accrued thereon from the respective obligors and any security or collateral therefor, including recoverable deposits.

"AFFILIATE" means, with respect to any specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such specified Person.

"ASSIGNED INVENTORY" means all Inventory other than the Excluded Inventory.

"ASSIGNED SPORTING GOODS RIGHTS" means the rights of the Seller under Sections 5.3, 5.5, 5.9, 5.19 and 5.22 and Article XI (to the extent applicable) of the Sporting Goods APA and the Sporting Goods Transition Services Agreement (other than amounts owing to the Seller on the Closing Date).

"ASSIGNMENT AND ASSUMPTION AGREEMENT" means the Assignment and Assumption Agreement substantially in the form of Exhibit A hereto to be executed by the Purchaser and the Seller on the Closing Date.

"ASSIGNMENTS OF INTANGIBLE PROPERTY" means the Assignments of Intangible Property substantially in the form of Exhibit G hereto to be executed by the Seller on the Closing Date.

"ASSUMED CONTRACTS" means the Contracts listed on Schedule 1.1(b).

"ASSUMED SPORTING GOODS OBLIGATIONS" means the obligations of the Seller under Sections 5.2(c), 5.3, 5.5, 5.6 (to the extent applicable), 5.9, 5.12, 5.14, 5.19, 5.22 and 5.23 and Article XI (to the extent applicable) of the Sporting Goods APA and the Sporting Goods Transition Services Agreement.

"BILL OF SALE" means Bills of Sale substantially in the form of Exhibit B hereto to be executed by the Seller on the Closing Date.

"BOOKS AND RECORDS" means all files, documents, instruments, papers, books and records, including Tax books and records (whether stored or maintained in hard copy, digital or electronic format or otherwise) of the Seller used by the Seller primarily in connection with the ownership, operation or conduct of the Business or the Assets, including Contracts, customer lists, customer information and account records, computer files, data processing records, employment and personnel records, advertising and marketing data and records, credit records, records relating to suppliers and other data.

"BUSINESS" means the Seller's and the Subsidiaries' business of (i) manufacturing, marketing, distributing and selling golf clubs, golf balls, golf shoes, golf bags, golf gloves, golf equipment and golf-related hard goods and (ii) licensing third parties to use the TOP-FLITE, BEN HOGAN, STRATA and related trademarks on other products.

"BUSINESS DAY" means any day that is not a Saturday, Sunday or other day on which banks located in New York, New York are authorized or obligated to close.

"CLAIM" means a suit, claim, action, proceeding, inquiry, investigation, litigation, demand, charge, complaint, grievance, arbitration, indictment, information, or grand jury subpoena.

"COBRA" means the Consolidated Omnibus Budget Reconciliation Act of 1985 as described in Section 4980B of the Code, sections 601 et seq. of ERISA, each as amended, and the regulations promulgated thereunder.

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

"CONTRACT" means any written or oral agreement, arrangement, understanding, lease or instrument or other contractual or similar arrangement or commitment.

"CURE COSTS" means the cure, compensation and restatement, costs and expenses of or relating to the assumption and assignment of the Assumed Contracts, Real Property Leases and Permits included in the Assets assumed and assigned to the Purchaser hereunder pursuant to Section 365 of the Bankruptcy Code.

"CURRENT RECEIVABLES" means all Accounts Receivable that as of the Closing Date are not more than 90 days past due. For the sake of clarity, Current Receivables shall not include any accounts receivable associated with the ETONIC business or the Sporting Goods Business.

"CURRENT RECEIVABLES DEPOSIT" means an amount equal to 10% of the Deemed Closing Date A/R Value of the Assigned Current Receivables, which shall be in cash to be delivered by the Purchaser to the Escrow Agent pursuant to Section 1.10(c) and subject to the Current Receivables Escrow Agreement.

"CURRENT RECEIVABLES ESCROW AGREEMENT" means the Current Receivables Escrow Agreement by and among the Seller, the Purchaser and the Escrow Agent, pursuant to which the Current Receivables Deposit will be delivered to the Escrow Agent at the Closing to secure certain obligations of the Seller under this Agreement, substantially in the form of Exhibit F attached hereto.

"DEEMED CLOSING DATE A/R VALUE" means the gross asset value of the Current Receivables, or any subset thereof (where applicable), as of the Closing Date, excluding all reserves, but otherwise determined in accordance with the same method of valuation as that used in the Financial Statements and the books and records of the Seller consistent with past practices.

"DEEMED CLOSING DATE INVENTORY VALUE" means (i) the consolidated standard cost, including both the variable and fixed overhead, of the Inventory, excluding all intercompany profit, all reserves and capitalized variances, but otherwise determined in accordance with the same method of valuation as that used in the Financial Statements and the books and records of Seller multiplied by (ii) 0.97.

"DEFECT" means a defect, fault, imperfection, impurity or dangerous propensity of any kind, whether in design, manufacture, production, materials, workmanship, processing or otherwise, including, without limitation, any failure to warn or breach of express or implied warranties or representations, or the failure to warn of the existence of any defect, fault, imperfection, impurity or dangerous propensity with respect to the products sold in the course of operating the Business.

"DISCOUNT RATE" means the discount rate as reported in The Wall Street Journal, New York Edition on the Closing Date.

"ENCUMBRANCES" means all Liens, claims, conditional sales agreements, rights of first refusal or options.

"EQUIPMENT" means all equipment, furniture, fixtures, machinery, tools, plant, inventory, supplies, testing equipment, motor vehicles, office equipment, computers and

peripheral equipment and supplies of the Seller, which are used primarily in connection with the ownership, conduct or operation of the Business.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ESCROW AGENT" means U.S. Bank National Association.

"ETONIC BUSINESS" means the ETONIC golf shoe and golf glove business formerly operated by the Seller, together with the Seller's former rights as licensor of the trademark ETONIC for use on athletic shoes, apparel, and other products.

"ETONIC SALE AGREEMENTS" means collectively each of the following agreements, dated as of April 8, 2003: (i) the Asset Purchase Agreement (the "ETONIC APA") between the Seller, Lisco Sports, Inc. and ETONIC Worldwide LLC ("EWL"); (ii) the Transition Services Agreement (the "ETONIC Transition Services Agreement") by and between EWL and the Seller; (iii) the Escrow Agreement (the "ETONIC Escrow Agreement") by and among EWL, the Seller and Brown Brothers Harriman & Co.; and (iv) all other agreements and documents entered into in connection therewith, each, as may be amended and supplemented from time to time.

"EXCLUDED CONTRACTS" means all Contracts other than those listed on Schedule 1.1(b).

"EXCLUDED EQUIPMENT" means the Equipment of the Seller and the Subsidiaries listed on Schedule 1.2(c).

"EXCLUDED ETONIC RIGHTS" means all rights of the Seller pursuant to the ETONIC Sale Agreements.

"EXCLUDED INFORMATION" means all customers lists, customer information and account records, and records relating to suppliers described on Schedule 1.2(g), in each case that relate primarily to the Excluded Operations.

"EXCLUDED INTELLECTUAL PROPERTY" means the Intellectual Property listed on Schedule 1.2(f).

"EXCLUDED INVENTORY" means the Inventory of the Seller and its Subsidiaries listed on Schedule 1.2(b). Such Excluded Inventory relates primarily to the Excluded Operations and includes Inventory defined as "Excluded Inventory" pursuant to the Sporting Goods APA.

"EXCLUDED PERMITS" means the Permits of the Seller and the Subsidiaries listed on Schedule 1.2(d).

"EXCLUDED OPERATIONS" means the assets sold pursuant to the ETONIC APA, the assets sold pursuant to the Sporting Goods APA, the ETONIC Business and the Sporting Goods Business.

"EXCLUDED SECURITIES" means the securities described on Schedule 1.2(h) which were issued in connection with proceedings of a bankruptcy of a customer.

"EXCLUDED SPORTING GOODS RIGHTS" means the rights of the Seller pursuant to the Sporting Goods Sale Agreements other than the Assigned Sporting Goods Rights.

"FINAL ORDER" means an order of the Bankruptcy Court or other court of competent jurisdiction: (a) as to which no appeal, notice of appeal, motion to amend or make additional findings of fact, motion to alter or amend judgment, motion for rehearing or motion for new trial has been timely filed or, if any of the foregoing has been timely filed, it has been disposed of in a manner that upholds and affirms the subject order in all material respects without the possibility for further appeal or rehearing thereon; (b) as to which the time for instituting or filing an appeal, motion for rehearing or motion for new trial shall have expired; and (c) as to which no stay is in effect; provided, however, that the filing or pendency of a motion under Federal Rule of Bankruptcy Procedure 9024 shall not cause an order not to be deemed a "Final Order" unless such motion shall be filed within ten (10) days of the entry of the order at issue.

"FOREIGN SUBSIDIARIES" means the Subsidiaries other than Lisco Sports, Inc.

"GOVERNMENTAL BODY" means a domestic or foreign national, federal, state, provincial, or local governmental, regulatory or administrative authority, department, agency, commission, court, tribunal, arbitral body or self-regulated entity.

"HSR ACT" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

"INDEMNIFIED PARTY" means any Person entitled to indemnification under Article VIII.

"INDEMNIFYING PARTY" means any Person obligated to indemnify another Person under Article VIII.

"INDEMNITY DEPOSIT" means initially $12,500,000 in cash to be delivered by the Purchaser to the Escrow Agent pursuant to Section 1.10(b) and subject to the Indemnity Escrow Agreement. In accordance with the Indemnity Escrow Agreement, on the six month anniversary of the Closing Date, the Released Amount shall be released to the Seller. The "Released Amount" shall be (i) the remaining Indemnity Deposit on the six month anniversary of the Closing Date minus (ii) the sum of (A) $6,250,000, plus (B) any amount then payable to the Purchaser's Indemnified Persons, plus (C) any additional Third Party Claims or Indemnity Claims claimed in good faith by the Purchaser's Indemnified Persons and disputed in good faith by the Seller as the Indemnifying Party. If the result of the foregoing calculation results in the Released Amount being zero or a negative number, then no amount shall be released from the Indemnity Deposit on the six month anniversary of the Closing Date.

"INDEMNITY ESCROW AGREEMENT" the Indemnity Escrow Agreement by and among the Seller, the Purchaser and the Escrow Agent, pursuant to which the Indemnity

Deposit will be delivered to the Escrow Agent at the Closing to secure certain obligations of indemnity of the Seller under this Agreement substantially in the form of Exhibit E attached hereto.

"INDEPENDENT ACCOUNTANTS" means Ernst & Young LLP.

"INFINITI SETTLEMENT AGREEMENT" means the settlement agreement between the Seller and the Infiniti Golf Company, to be entered into following the Closing and relating to the item disclosed on Schedule 2.15, which agreement shall not be amended or modified by the Purchaser without the prior written consent of the Seller; provided that the Purchaser may amend or modify the Infiniti Settlement Agreement without the consent of the Seller so long as such amendment or modification does not increase the amount of the indemnification obligation owed by the Seller to the Purchaser.

"INTELLECTUAL PROPERTY" means all (i) inventions, discoveries, processes, designs, techniques, developments and related improvements, whether or not patentable, (ii) United States patents, patent applications, divisionals, continuations, reissues, renewals, registrations, confirmations, re-examinations, extensions and any provisional applications, of any such patents or patent applications, and any foreign or international equivalent of any of the foregoing, (iii) any United States registered or pending trademark, trade dress, service mark, service name, trade name, brand name, logo, domain name, or business symbol and any foreign or international equivalent of any of the foregoing, and all goodwill associated therewith, (iv) any work specifications, software (including object and source code listing) and artwork, and (v) technical, scientific, and other know-how and information, trade secrets, methods, processes, practices, formulas, designs, assembly procedures, specifications owned by, or used primarily in the operation of the Business by, the Seller and the Subsidiaries, in each case, other than the Excluded Intellectual Property.

"INVENTORY" means all inventory of the Seller and its Subsidiaries, wherever located, including raw materials, supplies, packaging, spare parts, finished goods and work-in-process, and additions thereto and all other materials and supplies to be used or intended for use or consumed in the production of products primarily related to the Business.

"IRS" means the United States' Internal Revenue Service.

"LIABILITIES" means any direct or indirect, primary or secondary, liability, indebtedness, obligation, penalty, cost or expense (including costs of investigation, collection and defense), claim, deficiency, guaranty or endorsement of or by any Person (other than endorsements of notes, bills, checks, and drafts presented for collection or deposit in the ordinary course of business) of any type, whether accrued, absolute or contingent, liquidated or unliquidated, choate or inchoate matured or unmatured, or otherwise. Without limiting the foregoing in any manner, the term "Liabilities" includes and refers to all liabilities and obligations for or with respect to Taxes, including without limitation, liabilities for Taxes of any Person under Treasury Regulation Section 1.1502-6

(or any similar provision of state, local, or foreign law), as a transferee or successor, by contract, or otherwise.

"LIEN" means any security interest, mortgage, pledge, lien, encumbrance, charge or claim (as defined in Section 101(5) of the Bankruptcy Code).

"LOSSES" means any and all damages, costs, losses, Liabilities, expenses or obligations (including all Taxes, interest, penalties, court costs, costs of preparation and investigation, and reasonable attorneys', accountants', and other professional advisors' fees and expenses).

"MATERIAL ADVERSE EFFECT" means any change in, or effect on, the Business that is materially adverse to the results of operations or the financial condition of the Seller or the Business, other than (i) changes or effects resulting from the transactions contemplated by this Agreement, the announcement thereof or any actions by Seller with regard to, including any failure to pay, Excluded Liabilities, (ii) changes in U.S. general economic or securities market conditions, (iii) changes or conditions generally affecting the golf or golf equipment industry or the industry for other golf related equipment, (iv) changes resulting from acts of terrorism or acts of war or escalation of hostilities, whether occurring within or outside the United States, or any effect of any such acts or hostilities on general economic or other conditions, except to the extent such acts disproportionately affect (in a manner that is material and adverse) the Seller or the Business or (v) changes or effects resulting from or relating to the Bankruptcy Case.

"PAST DUE RECEIVABLES" means all Accounts Receivable that as of the Closing Date are more than 90 days past due.

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor entity thereto.

"PERMITTED ENCUMBRANCE" means (a) Liens for Taxes and assessments not yet payable, (b) inchoate mechanics' Liens for work in progress, (c) materialmen's, mechanics', carriers', workmen's and repairmen's Liens arising in the ordinary course and not past due and payable or the payment of which is being contested in good faith by appropriate proceedings, (d) Liens that will be released at or prior to Closing, (e) (i) easements, rights-of-way, servitudes, permits, licenses, surface leases, ground leases to utilities, municipal agreements, railway siding agreements and other rights, all as reflected in the official records of the jurisdictions where the Real Property is located, (ii) conditions, covenants or other restrictions reflected in the official records of the jurisdictions where the Real Property is located, and (iii) easements for streets, alleys, highways, telephone lines, gas pipelines, power lines, railways and other easements and rights-of-way on, over or in respect of any Real Property, all as reflected in the official records of the jurisdictions where the Real Property is located and that, with respect to clauses (a), (b), (c), and (d) above and this clause (e), individually or in the aggregate, do not or would not reasonably be expected to materially and adversely affect the current use or value of the Real Property subject thereto or the operations of the Seller as it is currently conducted, and (f) Liens related to purchase money security interests entered

into in the ordinary course of business. Notwithstanding any provision herein to the contrary, a "Permitted Encumbrance" shall not include a Lien in favor of the PGBC.

"PERSON" means any individual, corporation, partnership, limited liability company, limited liability partnership, firm, joint venture, association, joint-stock company, trust, unincorporated organization, Governmental Body or other entity.

"PREPAID EXPENSES" means all credits, prepaid expenses (including unamortized advertising expenses), deferred charges, advance payments, security deposits, and prepaid items (including in respect of Taxes) of the Seller arising primarily in connection with the operation or conduct of the Assets or the Business, in each case which are paid or prepaid by the Seller on or prior to the Closing Date and that correspond to, or are to be amortized during, a period after the Closing Date, which shall be valued based upon the same method of valuation used in preparing the Financial Statements and on the books of accounts and other financial records of the Business.

"PURCHASER'S INDEMNIFIED PERSONS" means the Purchaser and the Purchaser's stockholders, members, Affiliates, successors and assigns, and their respective stockholders, partners, Affiliates, directors, trustees, officers, employees, agents and Representatives.

"REPRESENTATIVE" means, with respect to a particular Person, any director, officer, manager, partner, member, employee, agent, consultant, advisor or other representative of such Person, including legal counsel, accountants, and financial advisors.

"RETAINED RECEIVABLES" means all Past Due Receivables, all Retained Current Receivables and all Accounts Receivable of the Seller that relate primarily to the Excluded Operations.

"SELLER'S INDEMNIFIED PERSONS" means the Seller and the Seller's stockholders, members, Affiliates, successors and assigns, and their respective stockholders, partners, Affiliates, directors, trustees, officers, employees, agents and Representatives.

"SELLER'S KNOWLEDGE" means the actual knowledge of the Chief Executive Officer of the Seller, the Chief Financial Officer of the Seller, the General Counsel of the Seller and the Executive Vice President of Operations of the Seller, or persons serving in such capacities to the extent that any such office is not held by a Person.

"SIGNING BONUSES" means payments made promptly following the Closing pursuant to Section 1.5(f) to those Transferred Employees set forth on Schedule 1.5(f) in the amount set forth on such Schedule opposite the name of each Person listed thereon.

"SPORTING GOODS BUSINESS" means the business sold to Russell pursuant to the Sporting Goods APA (which is referenced below).

"SPORTING GOODS SALE AGREEMENTS" means collectively each of the following agreements: (i) the Asset Purchase Agreement, dated as of April 16, 2003, (the "Sporting Goods APA") by and between the Seller, Spalding Australia Pty Ltd., SHC, Inc. and

Russell Corporation ("Russell"), (ii) the Transition Services Agreement (the "Sporting Goods Transition Services Agreement"), dated as of May 16, 2003, by and between the Seller and Russell, (iii) the Security Agreement (the "Sporting Goods Security Agreement"), dated as of May 16, 2003, by and among the Seller and Russell, (iv) the Control Agreement, dated as of May 16, 2003, by and among the Seller, Russell and Wachovia Bank, and (v) all other agreements and documents entered into in connection thereto, each, as may be amended or supplemented from time to time.

"SUBSIDIARY ASSETS" means the Assets of the Subsidiaries listed on Schedule 1.1(a).

"SUBSIDIARY STOCK" means the capital stock of each Subsidiary that is held of record by the Seller.

"TAX" or "TAXES" means all taxes, charges, fees, imposts, levies or other assessments, including all net income, franchise, profits, gross receipts, capital, sales, use, ad valorem, value added, transfer, transfer gains, inventory, capital stock, license, withholding, payroll, employment, social security, unemployment, excise, severance, stamp, occupation, real or personal property, and estimated taxes, customs duties, fees, assessments and charges of any kind whatsoever, together with any interest and any penalties, fines, additions to tax or additional amounts thereon, imposed by any taxing authority (federal, state, local or foreign) and shall include any transferee liability in respect of Taxes.

"TAX RETURNS" means all returns, declarations, reports, forms, estimates, information returns and statements required to be filed in respect of any Taxes or to be supplied to a taxing authority in connection with any Taxes.

(b) (b) The following capitalized terms are defined in the following Sections of this Agreement:

Term	Section
Acquisition	Recitals
Agreement	Preamble
Applicable Interest	1.6(e)
A/R Reconciliation	1.7(a)(iv)
Assets	1.1
Assigned A/R Value	1.7(a)(i)
Assigned Current Receivables	1.7(a)(i)
Assumed Liabilities	1.3
Bankruptcy Case	Recitals
Bankruptcy Code	Recitals
Bankruptcy Court	Recitals
Benefit Plan	2.17(a)
Bidding Procedures	4.9
Bidding Procedures Order	4.9
Break-Up Fee	7.2(b)

Term	Section
Certificate of Occupancy	2.13(f)
Claim Notice	8.5(a)
Closing	1.8
Closing Date	1.8
Closing Date Statement	1.6(b)
Closing Inventory	1.6(b)
Collection Fee	1.7(b)(i)
Collection Period	1.7(b)(i)
Competing Transaction	7.1(d)
Confidentiality Agreement	4.2
Current Receivables Deficiency	1.7(a)(iii)
Environmental Law	2.10(a)
Environmental Permits	2.10(e)
Excluded Assets	1.2
Excluded Liabilities	1.4
Expense Reimbursement	7.2(a)
Expense Reimbursement Limit	7.2(a)
Final Adjustment Date	1.6(d)
Final Closing Date Statement	1.6(c)
Financial Statements	2.5
Foreign Plans	2.17(h)
Formerly Owned and Leased Real Property	2.13(j)
GAAP	2.5
Hazardous Material	2.10(b)
Indemnity Notice	8.5(b)
Insurance Policies	2.19
Leased Real Property	2.13(b)
Material Contracts	2.11(a)
Minor Deficiency	4.15
Objection	1.6(c)
Owned Real Property	2.13(a)
Permits	2.9
Petition Date	Recitals
Purchase Price	1.5
Purchaser	Preamble
Real Property	2.13(c)
Real Property Leases	2.13(b)
Requirement of Law	2.8
Remediation	2.10(c)
Retained A/R Value	1.7(a)(i)
Retained Current Receivables	1.7(a)(i)
Returned Goods	1.7(d)
Sale Approval Order	4.9
Schedules	2
Seller	Preamble

Term	Section
Seller Consents and Notices	2.3(b)
Seller's Employees	2.18(a)
Seller's Inventory Deficiency	1.6(d)
Space Leases	2.13(d)
Sporting Goods Financials	2.5
Straddle Period Accruals	1.5(e)
Subsidiaries	2.2(a)
Survival Period	8.7
Target Inventory	1.6(a)
Target Inventory Statement	1.6(a)
Title IV Plan	2.17(b)
Top-Flite Name	4.17
Tour Contracts	1.5(e)
Transitional Employee Reimbursement Amount	4.8(g)
Transitional Employees	4.8(g)
Year End Bonuses	1.5(e)

9.2 Consent to Jurisdiction; Service of Process; Waiver of Jury Trial.

(a) The Purchaser and the Seller irrevocably and unconditionally consent to submit to the jurisdiction of the Bankruptcy Court for any litigation arising out of or relating to this Agreement and the transactions contemplated hereby (and agree not to commence any litigation relating hereto except in the Bankruptcy Court).

(b) Any and all service of process and any other notice in any such Claim shall be effective against any party if given personally or by registered or certified mail, return receipt requested, or by any other means of mail that requires a signed receipt, postage prepaid, mailed to such party as herein provided. Nothing herein contained shall be deemed to affect the right of any party to serve process in any manner permitted by law or to commence legal proceedings or otherwise proceed against any other party in any other jurisdiction.

(c) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY THAT MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY.

(d) EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE WAIVER IN SECTION 9.2(c), (ii) SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF SUCH WAIVER, (iii) SUCH PARTY MAKES SUCH WAIVER VOLUNTARILY AND (iv) SUCH PARTY HAS

BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS, AGREEMENTS AND CERTIFICATIONS IN SECTION 9.2(c) AND THIS SECTION 9.2(d).

9.3 Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given (a) on the day of delivery if delivered in person, or if delivered by facsimile upon confirmation of receipt, (b) on the first (1st) Business Day following the date of dispatch if delivered by a nationally recognized express courier service, or (c) on the tenth (10th) Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below, or pursuant to such other instructions as may be designated by notice given in accordance with this Section 9.3 by the party to receive such notice:

(a) if to the Purchaser, to:

Callaway Golf Company
2180 Rutherford Road
Carlsbad, CA 92008-7328
Attention: Steve McCracken, Esq.
Facsimile: (760) 804-4242

with a copy to:

Gibson, Dunn & Crutcher LLP
Jamboree Center
4 Park Plaza, Suite 1400
Irvine, California 92614-8557
Attention: Thomas Magill, Esq.
Facsimile: (949) 475-4648

(b) if to the Seller, to:

The Top-Flite Golf Company
425 Meadow Street
Chicopee, MA 01013-2135
Attention: Peter A. Arturi, Esq.
Facsimile: (413) 322-2200

with a copy to:

Paul, Weiss, Rifkind, Wharton &
Garrison LLP
1285 Avenue of the Americas
New York, New York 10019-6064
Attention: Kenneth M. Schneider, Esq.
Facsimile: (212) 757-3990

9.4 Entire Agreement. This Agreement, together with the Confidentiality Agreement and any other collateral agreements executed in connection with the consummation of the transactions contemplated hereby, contain the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements, written or oral, with respect thereto. Any exception or disclosure made by Seller in the Schedules to this Agreement with regard to a representation of the Seller shall be deemed made with respect to any other representation by such party to which such exception or disclosure is reasonably apparent.

9.5 Waivers and Amendments. This Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by the Purchaser and the Seller or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege, nor any single or partial exercise of any such right, power or privilege, preclude any further exercise thereof or the exercise of any other such right, power or privilege. All remedies, rights, undertakings, obligations, and agreements contained herein shall be cumulative and not mutually exclusive.

9.6 Governing Law. This Agreement and all Claims with respect thereto shall be governed by and construed in accordance with federal bankruptcy law, to the extent applicable, and, where state law is implicated, the laws of the State of New York without regard to any conflict of laws rules thereof that might indicate the application of the laws of any other jurisdiction.

9.7 Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. This Agreement is not assignable by any party without the prior written consent of the other party; provided that the Purchaser, in its sole discretion, may assign this Agreement to a wholly-owned subsidiary of the Purchaser, provided, further that the Purchaser shall not be relieved of any of its obligations under this Agreement as a result of such assignment.

9.8 Usage. All pronouns and any variations thereof refer to the masculine, feminine or neuter, singular or plural, as the context may require. All terms defined in this Agreement in their singular or plural forms have correlative meanings when used herein in their plural or singular forms, respectively. Unless otherwise expressly provided, the words "include," "includes" and "including" do not limit the preceding words or terms and shall be deemed to be followed by the words "without limitation."

9.9 Articles and Sections. All references herein to Articles and Sections shall be deemed references to such parts of this Agreement, unless the context shall otherwise require. The Article and Section headings in this Agreement are for reference only and shall not affect the interpretation of this Agreement.

9.10 Interpretation. The parties acknowledge and agree that (a) each party and its counsel reviewed and negotiated the terms and provisions of this Agreement and have

contributed to its revision, (b) the rule of construction to the effect that any ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Agreement, and (c) the terms and provisions of this Agreement shall be construed fairly as to all parties, regardless of which party was generally responsible for the preparation of this Agreement.

9.11 Severability of Provisions. If any provision or any portion of any provision of this Agreement shall be held invalid or unenforceable, the remaining portion of such provision and the remaining provisions of this Agreement shall not be affected thereby. If the application of any provision or any portion of any provision of this Agreement to any Person or circumstance shall be held invalid or unenforceable, the application of such provision or portion of such provision to Persons or circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby.

9.12 Counterparts. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts together shall constitute one and the same instrument. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all, of the parties hereto.

9.13 No Third Party Beneficiaries. Except as otherwise set forth in Section 4.12 or with respect to the Assumed Sporting Goods Obligations, no provision of this Agreement is intended to, or shall, confer any third party beneficiary or other rights or remedies upon any Person other than the parties hereto. Without limiting the generality of the foregoing and except as otherwise set forth in Section 4.12 or, with respect to the Assumed Sporting Goods Obligations, the Sporting Goods Sale Agreements, no provision of this Agreement shall create any third party beneficiary rights in any employee or former employee of the Seller or any of the Subsidiaries (including any beneficiary or dependent thereof) in respect of continued employment by the Seller or any of the Subsidiaries or otherwise.

9.14 Bulk Transfer Law. The Purchaser hereby waives compliance by the Seller with the provisions of any so-called bulk transfer laws of any jurisdiction in connection with the transactions contemplated by this Agreement.

[Remainder of Page Intentionally Left Blank]

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

CALLAWAY GOLF COMPANY

By: /s/ RONALD A. DRAPEAU
_____
Name: Ronald A. Drapeau
Title: Chairman of the Board,
President and Chief Executive Officer

THE TOP-FLITE GOLF COMPANY
(f/k/a SPALDING SPORTS
WORLDWIDE, INC.)

By: /s/ JAMES R. CRAIGIE
_____
Name: James R. Craigie
Title: President and Chief Executive Officer

Exhibit A

[Form of]

ASSIGNMENT AND ASSUMPTION AGREEMENT

ASSIGNMENT AND ASSUMPTION AGREEMENT, dated as of _____, 2003 (this "Agreement"), by and between The Top-Flite Golf Company (f/k/a Spalding Sports Worldwide, Inc.), a Delaware corporation (the "Seller"), and Callaway Golf Company, a Delaware corporation (the "Purchaser").

W I T N E S S E T H:

WHEREAS, the parties have entered into an Asset Purchase Agreement dated as of June 30, 2003 (the "Asset Purchase Agreement"; capitalized terms used and not defined herein are used herein as defined in the Asset Purchase Agreement), providing for the sale to the Purchaser of certain assets of the Seller and the assignment to the Purchaser of certain liabilities of the Seller; and

WHEREAS, the execution and delivery of this Agreement by the Seller and the Purchaser is a condition to the obligations of the parties to consummate the transactions contemplated by the Asset Purchase Agreement;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements and covenants hereinafter set forth, the parties hereby agree as follows:

1. The Seller hereby assigns, transfers, and conveys to the Purchaser all of the Seller's legal, beneficial, and other right, title and interest in and to the Assumed Contracts.

2. The Purchaser hereby assumes and agrees to pay, perform and discharge in accordance with their terms (whether fixed or contingent, matured or unmatured, arising by law or by Contract or otherwise), subject to any defenses or claimed offsets asserted in good faith against the obligee to whom such liabilities or obligations are owed, all the Assumed Liabilities as set forth in Section 1.3 of the Asset Purchase Agreement.

3. Any notice, request or other document to be given hereunder to either party hereto shall be given in accordance with Section 9.3 of the Asset Purchase Agreement.

4. This Agreement is not assignable without the prior written consent of the Seller; provided that the Purchaser, in its sole discretion, may assign this Agreement to a wholly-owned subsidiary of the Purchaser; provided, further that the Purchaser shall not be relieved of any of its obligations under this Agreement or the Asset Purchase Agreement as a result of such assignment.

5. This Agreement and all Claims with respect thereto shall be governed by and construed in accordance with federal bankruptcy law, to the extent applicable, and, where state law is implicated, the laws of the State of New York without regard to any conflict of laws rules thereof that might indicate the application of the laws of any other jurisdiction.

6. This Agreement may not be amended, waived or otherwise modified except by a written instrument signed by the parties hereto.

7. The Seller and the Purchaser shall execute, acknowledge (if appropriate) and deliver, or cause the execution, acknowledgement and delivery to others of such further documents and instruments as may reasonably be requested by the other party to implement the purposes of this Agreement.

6. This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

CALLAWAY GOLF COMPANY

By: _____
Name:
Title:

THE TOP-FLITE GOLF COMPANY (f/k/a SPALDING SPORTS WORLDWIDE, INC.)

By: _____
Name:
Title:

Exhibit B

[Form of]

BILL OF SALE

BILL OF SALE, dated as of _____, 2003 from The Top-Flite Golf Company (f/k/a Spalding Sports Worldwide, Inc.), a Delaware corporation (the "Seller"), to Callaway Golf Company, a Delaware corporation (the "Purchaser").

WHEREAS, the Seller and the Purchaser have entered into an Asset Purchase Agreement, dated as of June 30, 2003 (the "Asset Purchase Agreement"; capitalized terms used and not defined herein are used herein as defined in the Asset Purchase Agreement), providing for the sale to the Purchaser of certain assets of the Seller and the assignment to the Purchaser of certain liabilities of the Seller; and

WHEREAS, the execution and delivery of this Bill of Sale by the Seller is a condition to the obligations of the Purchaser to consummate the transactions contemplated by the Asset Purchase Agreement;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged and pursuant to the Asset Purchase Agreement, the Seller by these presents hereby agrees as follows:

1. Sale and Assignment of Assets and Properties. The Seller does hereby sell, assign, transfer, convey, grant, bargain, set over, release, deliver and confirm unto the Purchaser, its successors and assigns, forever, the entire right, title and interest of the Seller in all of the Seller's properties, assets, and rights of every nature, kind and description, tangible and intangible (including goodwill) used by the Seller in the conduct of the Business, wherever such properties, assets and rights are located, whether real, personal or mixed, whether accrued, contingent or otherwise, as the same may exist on the Closing Date, other than the Excluded Assets (such rights, title and interests in and to all such assets, properties and claims being collectively referred to herein as the "Assets"), in accordance with, and with all of the protections afforded by, Sections 363 and 365 of the Bankruptcy Code. Subject to, and only as expressly limited by, the Excluded Assets, the Assets shall include all of the Seller's right, title, and interest in and to the assets, properties, rights and claims described in clauses (a) through (m) below:

(a) the Subsidiary Assets;

(b) all Assumed Contracts;

(c) all Intellectual Property;

(d) all Assigned Current Receivables;

(e) all Assigned Inventory;

(f) all Equipment;

(g) all Prepaid Expenses;

(h) all Books and Records;

(i) all Permits;

(j) all of the Assigned Sporting Goods Rights;

(k) all telephone numbers, addresses (including electronic mail addresses) used by the Seller or the Subsidiaries primarily in connection with the operation or conduct of the Business;

(l) all goodwill arising primarily in connection with the ownership, operation or conduct of the Assets and the Business; and

(m) all other property and assets of the Business, moveable and immoveable, real and personal, tangible or intangible, of every kind and description and wheresoever situated, including the full benefit of all representations, warranties, guarantees, indemnities, undertakings, certificates, covenants, agreements and all security therefor received by the Seller on the purchase or other acquisition of any part of the Assets.

2. Further Assurances. The Seller hereby agrees to execute, acknowledge (if appropriate) and deliver, or cause the execution, acknowledgment and delivery, of such further documents and instruments as may be reasonably requested by the Purchaser to implement the purposes of this Bill of Sale.

3. No Rights in Third Parties. Nothing expressed or implied in this Bill of Sale is intended to or shall confer upon any Person, other than the parties and their respective successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Bill of Sale.

4. Successors and Assigns. This Bill of Sale shall bind and inure to the benefit of the parties and their respective successors and assigns.

5. Governing Law. This Bill of Sale and all Claims with respect thereto shall be governed by and construed in accordance with federal bankruptcy law, to the extent applicable, and, where state law is implicated, the laws of the State of New York without regard to any conflict of laws rules thereof that might indicate the application of the laws of any other jurisdiction.

6. Counterparts. This Bill of Sale may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Seller has caused this Bill of Sale to be duly executed as of the day and year first above written.

THE TOP-FLITE GOLF COMPANY (f/k/a SPALDING SPORTS WORLDWIDE, INC.)

By: _____
Name:
Title:

Accepted and Agreed to:

CALLAWAY GOLF COMPANY

By: _____
Name:
Title:

Exhibit C

IN THE UNITED STATES BANKRUPTCY COURT

FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
	)	
SHC, INC., et al.,	)	Case No. 03-_____ (___)
	)	
	)	(Jointly Administered)
Debtors.	)	

ORDER APPROVING DEBTORS' MOTION FOR ORDER (A) APPROVING SALE PROCEDURES INCLUDING, WITHOUT LIMITATION, EXPENSE REIMBURSEMENT AND BREAK-UP FEE; (B) APPROVING FORM AND MANNER OF NOTICE; (C) SCHEDULING A HEARING TO CONSIDER THE SALE OF SUBSTANTIALLY ALL OF THE DEBTORS' ASSETS; AND (D) GRANTING RELATED RELIEF

Upon the motion (the "Motion") of SHC, Inc., Top-Flight, Inc., The Top-Flite Golf Company ("Top-Flite") and Lisco Sports, Inc., the above-captioned debtors and debtors-in-possession (collectively, the "Debtors"), requesting entry of an order (A) approving the sale procedures (the "Sale Procedures") with respect to the proposed sale (the "Asset Sale") of substantially all of the Debtors' assets (the "Assets"), including the Expense Reimbursement and Break-Up Fee as set forth below and in the Asset Purchase Agreement between Callaway Golf Company (the "Purchaser") and Top-Flite (the "Agreement"); (B) approving the form and manner of notice of the Auction(1) and the Sale Procedures; (C) scheduling a hearing (the "Sale Hearing") and objection and competing bid deadline with respect to the Asset Sale; and (D) granting related relief; and the Court having determined that the relief requested in the Motion is in the best interests of the

- ------------------

(1) Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Motion or in the Agreement.

Debtors, their estates, their creditors and other parties-in-interest; and due and adequate notice of the Motion having been given under the circumstances; and upon the Declarations of Matthew Cwiertnia and Kevin M. Golmont in support of the Motion and the Debtors' motion to authorize the Asset Sale, and the remainder of the record herein; and after due deliberation thereon; and good and sufficient cause appearing therefore, it is hereby

FOUND, CONCLUDED AND DECLARED THAT:(2)

A. This Court has jurisdiction over this matter and over the property of the Debtors and their bankruptcy estates pursuant to 28 U.S.C. Sections 157(a) and 1334.

B. This is a core proceeding pursuant to 28 U.S.C. Section 157(b)(2)(A), (M) and (O).

C. Good and sufficient notice of the Motion and the relief sought therein has been given and no other or further notice is required. A reasonable opportunity to object or be heard regarding the relief requested in the Motion has been afforded to parties in interest.

D. The Debtors' proposed notices of (i) the Asset Sale, (ii) the assumption and assignment of unexpired leases, license agreements and executory contracts and any cure amounts payable in respect thereof, as described or referred to in the Agreement, and (iii) the Sale Procedures, are appropriate and reasonably calculated to provide all interested parties with timely and proper notice of the Auction, the Asset Sale,

- ------------------

(2) Findings of fact shall be construed as conclusions of law and conclusions of law shall be construed as findings of fact when appropriate. See Fed. R. Bankr. P. 7052.

and the assumption and assignment of unexpired leases, license agreements and executory contracts and the Sale Procedures to be employed in connection therewith.

E. The Debtors have demonstrated a sound business justification for authorizing the payment of the Expense Reimbursement and Break-Up Fee to the Purchaser under the circumstances set forth in the Motion and the Agreement.

F. The Expense Reimbursement and Break-Up Fee are fair and reasonable, and were negotiated by the parties in good faith and at arms' length.

G. The Debtors' payment of the Expense Reimbursement and Break-Up Fee to the Purchaser, as set forth in the Agreement, is (a) an actual and necessary cost and expense of preserving the Debtors' bankruptcy estates, within the meaning of section 503(b) of the Bankruptcy Code, (b) of substantial benefit to the Debtors' estates, (c) reasonable and appropriate, including in light of the size and nature of the Asset Sale and the efforts that have been and will be expended by the Purchaser even though the proposed Asset Sale to the Purchaser is subject to higher or better offers, and (d) necessary to ensure that the Purchaser will continue to pursue its proposed acquisition of the Assets.

H. The Expense Reimbursement and Break-Up Fee were and are material inducements for, and conditions of, the Purchaser's entering into the Agreement. The Purchaser is unwilling to commit to hold open its offer to purchase the Assets under the terms of the Agreement unless it is assured of payment of the Expense Reimbursement and Break-Up Fee as more fully set forth in the Agreement. Assurance to the Purchaser of payment of the Expense Reimbursement and Break-Up Fee has

promoted and will promote more competitive bidding by inducing the Purchaser's bid that otherwise would not have been made, and without which bidding would have been and would continue to be limited. Further, because the Expense Reimbursement and Break-Up Fee induced the Purchaser to research the value of the Assets and submit a bid that will serve as a minimum or floor bid for all of the Assets on which other bidders and the Debtors can rely, the Purchaser has provided a benefit to the Debtors' bankruptcy estates by increasing the likelihood that the price at which the Assets are sold will reflect their true worth.

I. Absent authorization of the payment of the Expense Reimbursement and Break-Up Fee, the Debtors may lose the opportunity to obtain the highest and best available offer for the Assets and the downside protection afforded by the Agreement. In light of the benefit to the Debtors' estates realized by having a fully negotiated Agreement, an Agreement which will enable the Debtors to preserve the value of their business, ample support exists for the approval of the Expense Reimbursement and Break-Up Fee as contemplated in the Agreement.

J. The entry of this Order is in the best interests of the Debtors, their estates, their creditors and other parties-in-interest; and it is therefore

ORDERED, ADJUDGED AND DECREED THAT:

1. The relief requested in the Motion is granted.

2. All objections to the entry of this Order that have not been withdrawn, waived, resolved or settled, and all reservations of rights included therein, are hereby denied and overruled on the merits with prejudice.

3. The Sale Procedures attached hereto as Exhibit A are hereby approved and shall apply with respect to the Asset Sale.

4. The Expense Reimbursement and Break-Up Fee are each hereby approved.

5. Subject to the conditions and limitations set forth in the Agreement, in the event that the Agreement is terminated, the Debtors shall pay the Expense Reimbursement and Break-Up Fee to the Purchaser pursuant to the terms and conditions set forth in the Agreement.

6. The Debtors' obligation to pay the Expense Reimbursement and Break-Up Fee shall constitute an administrative expense claim in these cases under sections 503(b) and 507(a)(1) of the Bankruptcy Code, and shall be payable in accordance with the terms of the Agreement without further order of this Court.

7. The Debtors may sell the Assets by conducting an Auction in accordance with the Sale Procedures.

8. The Auction shall take place at __:__ a.m./p.m. (prevailing Eastern Time) on August __, 2003 or such later time as the Debtors shall notify the Purchaser and all Qualified Bidders who have submitted a Qualified Bid and expressed their intent to participate in the Auction (the "Auction Date"), at the offices of Paul, Weiss, Rifkind, Wharton & Garrison LLP, 1285 Avenue of the Americas, New York, New York 10019-6064, or such other place as the Debtors shall notify Purchaser and all Qualified Bidders who have submitted a Qualified Bid and expressed their intent to participate in the Auction.

9. A Qualified Bidder that desires to make a bid shall file such bid with this Court and deliver written copies of its bid to (a) the Top-Flite Golf Company, 425 Meadow Street, Chicopee, MA 01013-2135, Attention: Peter Arturi, General Counsel - With copies to: Paul, Weiss, Rifkind, Wharton & Garrison LLP, 1285 Avenue of the Americas, New York, New York 10019-6064, Attention: Kenneth M. Schneider and Andrew N. Rosenberg, and Young Conaway Stargatt & Taylor LLP, The Brandywine Building, 1000 West Street, 17th Floor, P.O. Box 391, Wilmington, DE 19899-0391, Attention: Pauline K. Morgan, counsel for the Debtors, (b) Gibson, Dunn & Crutcher LLP, Jamboree Center, 4 Park Plaza, Suite 1400, Irvine, California 92614-8557, Attention: Thomas Magill, counsel to the Purchaser, (c) Wachtell, Lipton, Rosen & Katz, 51 West 52nd St., New York, N.Y. 10019, Attention: Scott K. Charles, Esq., counsel for the Debtors' prepetition bank group, and (d) counsel to any official committee of unsecured creditors appointed in these cases, not later than 4:00 p.m. (prevailing Eastern Time) on August __, 2003 (the "Bid Deadline") and shall comply with the requirements set forth in the Sale Procedures for making such bid.

10. The Debtors shall have the right to reject any and all bids that they believe in their reasonable discretion does not conform with the Sale Procedures. The Purchaser's bid as embodied in the Agreement is deemed to be a conforming bid.

11. The Sale Hearing shall be held before this Court on August __, 2003 at __:__ a.m./p.m. (prevailing Eastern Time), or as soon thereafter as counsel and interested parties may be heard.

12. Not later than three (3) business days after the entry an Order approving this Motion, the Debtors will cause the Auction and Sale Notice attached to the Order as Exhibit B to be sent by first-class mail postage prepaid to all of the Debtors' creditors and equity interest holders of record, the Environmental Protection Agency, all state/local environmental agencies in any jurisdiction where the Seller owns or has owned or used real property, all entities known to have expressed a bona fide interest in acquiring the Assets, all taxing authorities or recording offices which have a reasonably known interest in the relief requested, the Office of the United States Trustee, counsel for any official committee of unsecured creditors appointed in these cases, all federal, state and local regulatory authorities with jurisdiction over the Debtors, the office of the United States Attorney, all insurers, all non-debtor parties to contracts or leases (executory or other), and other known parties-in-interest in these bankruptcy cases.

13. Not later than ten (10) business days after the entry of an Order approving this Motion, the Debtors shall cause the Auction and Sale Publication Notice, in a form substantially similar to the form attached to the Order as Exhibit C, to be published in (a) the national editions of The Wall Street Journal and The New York Times, and (b) The Chicopee Gazette, pursuant to Bankruptcy Rule 2002(l). Such notice is good and proper notice to such interested parties, including those whose identities are unknown to the Debtors.

14. Not later than three (3) business days after the entry of an Order approving this Motion, the Debtors shall cause the Cure Amount Notice, attached to the

Order as Exhibit D to be served on the non-debtor parties to all unexpired leases, license agreements and executory contracts.

15. Unless the non-debtor party to an unexpired lease, license agreement or executory contract files an objection (the "Cure Amount Objection") to its scheduled Prepetition Cure Amount on or before 4:00 p.m. (prevailing Eastern Time) on August __, 2003 (the "Cure Objection Deadline") and serves a copy of the Cure Amount Objection so as to be received no later than 4:00 p.m. (prevailing Eastern Time) on the same day, upon (a) the Top-Flite Golf Company, 425 Meadow Street, Chicopee, MA 01013-2135, Attention: Peter Arturi, General Counsel - With copies to: Paul, Weiss, Rifkind, Wharton & Garrison LLP, 1285 Avenue of the Americas, New York, New York 10019-6064, Attention: Kenneth M. Schneider and Andrew N. Rosenberg, and Young Conaway Stargatt & Taylor LLP, The Brandywine Building, 1000 West Street, 17th Floor, P.O. Box 391, Wilmington, DE 19899-0391, Attention: Pauline K. Morgan, counsel for the Debtors, (b) Gibson, Dunn & Crutcher LLP, Jamboree Center, 4 Park Plaza, Suite 1400, Irvine, California 92614-8557, Attention: Thomas Magill, counsel to the Purchaser, (c) the Office of the United States Trustee, 844 King Street, Room 2313, Wilmington, Delaware, 19801, (d) Wachtell, Lipton, Rosen & Katz, 51 West 52nd St., New York, N.Y. 10019, Attention: Scott K. Charles, Esq., counsel for the Debtors' prepetition bank group, and (e) counsel to any official committee of unsecured creditors appointed in these cases, such non-debtor party shall (i) be forever barred from objecting to the Prepetition Cure Amount and from asserting any additional cure or other amounts with respect to such unexpired lease, license agreement or executory contract and the Debtors shall be entitled to rely solely upon the Prepetition Cure Amount; and (ii) be

deemed to have consented to the assumption and assignment of such unexpired lease, license agreement or executory contract and shall be forever barred and estopped from asserting or claiming against the Debtors, Purchaser or such other successful bidder or any other assignee of the relevant unexpired lease, license agreement or executory contract that any additional amounts are due or defaults exist, or conditions to assumption and assignment must be satisfied under such unexpired lease, license agreement or executory contract.

16. In the event that a Cure Amount Objection is filed, the Cure Amount Objection must set forth (i) the basis for the objection, and (ii) the amount the party asserts as the Prepetition Cure Amount. In the event that the Debtors and the non-debtor party to the unexpired lease, license agreement or executory contract cannot consensually resolve the Cure Amount Objection, the Debtors will segregate any disputed cure amounts pending the resolution of any such disputes by this Court or mutual agreement of the parties.

17. Objections, if any, to the relief requested in the Sale Motion must: (a) be in writing; (b) comply with the Bankruptcy Rules and the Local Bankruptcy Rules; (c) be filed with the clerk of the Bankruptcy Court for the District of Delaware, Fifth Floor, 824 Market Street, Wilmington, Delaware 19801, on or before 4:00 p.m. (prevailing Eastern Time) on August __, 2003 and (d) be served so as to be received no later than 4:00 p.m. (prevailing Eastern Time) on the same day, upon (i) the Top-Flite Golf Company, 425 Meadow Street, Chicopee, MA 01013-2135, Attention: Peter Arturi, General Counsel - With copies to: Paul, Weiss, Rifkind, Wharton & Garrison LLP, 1285

Avenue of the Americas, New York, New York 10019-6064, Attention: Kenneth M. Schneider and Andrew N. Rosenberg, and Young Conaway Stargatt & Taylor LLP, The Brandywine Building, 1000 West Street, 17th Floor, P.O. Box 391, Wilmington, DE 19899-0391, Attention: Pauline K. Morgan, counsel for the Debtors, (ii) Gibson, Dunn & Crutcher LLP, Jamboree Center, 4 Park Plaza, Suite 1400, Irvine, California 92614-8557, Attention: Thomas Magill, counsel to the Purchaser, (iii) the Office of the United States Trustee, 844 King Street, Room 2313, Wilmington, Delaware, 19801, (iv) Wachtell, Lipton, Rosen & Katz, 51 West 52nd St., New York, N.Y. 10019, Attention: Scott K. Charles, Esq., counsel for the Debtors' prepetition bank group, and (v) counsel to any official committee of unsecured creditors appointed in these cases.

18. Hearings on Cure Amount Objections may be held (a) at the Sale Hearing, or (b) on such other date as this Court may designate upon motion by the Debtors, provided that if the subject unexpired lease, license agreement or executory contract is assumed and assigned, the cure amount asserted by the objecting party (or such lower amount as may be fixed by this Court) shall be deposited and held in a segregated account by the Debtors pending further order of this Court or mutual agreement of the parties.

19. The Debtors' decision to assume and assign unexpired leases, license agreements and executory contracts is subject to Court approval and consummation of the Asset Sale. Absent consummation of the Asset Sale, each of the unexpired leases, license agreements and executory contracts shall neither be deemed

assumed nor assigned and shall in all respects be subject to further administration under the Bankruptcy Code.

20. The notices to be issued in connection with the proposed Asset Sale, in the form of the notices annexed to the Order as Exhibits B, C and D are approved in all respects.

21. The Sale Hearing may be adjourned, from time to time, without further notice to creditors or other parties-in-interest other than by announcement of said adjournment before this Court or on this Court's calendar on the date scheduled for said hearing.

22. As provided by Bankruptcy Rules 6004(g) and 6006(d), this Order shall not be stayed for ten (10) days after the entry thereof and shall be effective and enforceable immediately upon its entry on this Court's docket.

23. This Court shall retain jurisdiction over any matters related to or arising from the implementation of this Order.

Dated: Wilmington, Delaware
July __, 2003

_____
UNITED STATES BANKRUPTCY JUDGE

Exhibit D

IN THE UNITED STATES BANKRUPTCY COURT

FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
	)	
SHC, INC., et al.,	)	Case No. 03-_____ (___)
	)	
	)	(Jointly Administered)
Debtors.	)	

ORDER AUTHORIZING (I) SALE OF CERTAIN OF THE DEBTORS' ASSETS FREE AND CLEAR OF LIENS, CLAIMS, ENCUMBRANCES AND INTERESTS, (II) ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES, AND (III) ASSUMPTION OF CERTAIN LIABILITIES

Upon the motion, dated June __, 2003 (the "Motion")(1) of the above-captioned debtors and debtors-in-possession (the "Debtors"), for, inter alia, entry of an order under sections 105(a), 363, 365, and 1146(c) of title 11 of the United States Code (the "Bankruptcy Code") and Fed. R. Bankr. P. 2002, 6004, 6006, and 9014 (the "Sale Order") authorizing (i) the sale (the "Sale") by The Top-Flite Golf Company ("Top-Flite") and Lisco Sports, Inc. ("Lisco") of the Assets pursuant to and as described in the Asset Purchase Agreement, dated as of June __, 2003 (the "Agreement"),(2) between Top-Flite and Callaway Golf Company (the "Purchaser"), (ii) the Debtors' assumption and assignment to the Purchaser of the Assumed Contracts, pursuant to and as described in the Agreement, and (iii) the assumption by the Purchaser of certain liabilities of Top-Flite (the "Assumed Liabilities"), pursuant to and as described in the Agreement; and the Court having entered an order on July __, 2003 (the "Procedures Order") approving (i) the

- ----------

(1) Unless otherwise defined, capitalized terms used herein shall have the meanings ascribed to them in the Motion or the Agreement, as the case may be; as to any conflicts with respect to such terms, the meanings contained in the Agreement shall control over the meanings contained in the Motion.

(2) A copy of the Agreement is annexed to this Order as Exhibit A.

Bidding Procedures, (ii) the form and manner of notice of the Auction, and (iii) the form and manner of the notice of the assumption and assignment of Assumed Contracts; and a hearing on the Motion having been held on August __, 2003 (the "Sale Hearing"), at which time all interested parties were offered an opportunity to be heard with respect to the Motion; and the Court having reviewed and considered (i) the Motion, (ii) the objections thereto, if any, and (iii) the arguments of counsel made, and the evidence proffered or adduced, at the Sale Hearing; and it appearing that the relief requested in the Motion is in the best interests of the Debtors, their estates and creditors and other parties in interest; and upon the record of the Sale Hearing and these cases; and after due deliberation thereon; and good cause appearing therefore, it is hereby

FOUND AND DETERMINED THAT:(3)

A. The findings and conclusions set forth herein constitute the Court's findings of fact and conclusions of law pursuant to Fed. R. Bankr. P. 7052, made applicable to this proceeding pursuant to Fed. R. Bankr. P. 9014.

B. The Court has jurisdiction over this Motion and the transactions contemplated by the Agreement pursuant to 28 U.S.C. Sections 157 and 1334, and this matter is a core proceeding pursuant to 28 U.S.C. Section 157(b)(2)(A) and (N). Venue of these cases and the Motion in this district is proper under 28 U.S.C. Sections 1408 and 1409.

C. The statutory predicates for the relief sought in the Motion are sections 105, 363 and 365 and 1146(c) of the Bankruptcy Code, and Fed. R. Bankr. P. 2002, 6004, 6006 and 9014.

- ------------------------

(3) Findings of fact shall be construed as conclusions of law and conclusions of law shall be construed as findings of fact when appropriate. See Fed. R. Bankr. P. 7052.

D. As evidenced by the affidavits of service and publication previously filed with the Court, and based on the representations of counsel at the Sale Hearing, (i) due, proper, timely, adequate and sufficient notice of the Motion, the Sale Hearing, the Auction, the Sale, and the assumption and assignment of the Assumed Contracts has been provided in accordance with sections 102(1), 363 and 365 of the Bankruptcy Code and Fed. R. Bankr. P. 2002, 6004 and 9014 and in compliance with the Procedures Order to each party entitled thereto, (ii) such notice was good and sufficient, and appropriate under the particular circumstances, and (iii) no other or further notice of the Motion, the Sale Hearing, the Auction, or the assumption and assignment of the Assumed Contracts is or shall be required.

E. As demonstrated by (i) the testimony and other evidence proffered or adduced at the Sale Hearing and (ii) the representations of counsel made on the record at the Sale Hearing, the Debtors have marketed the Assets and conducted the sale process in compliance with the Procedures Order and the Auction was duly noticed.

F. The Debtors (i) have full corporate power and authority to execute the Agreement and all other documents contemplated thereby, and the sale of the Assets by the Debtors has been duly and validly authorized by all necessary corporate action, (ii) have all of the corporate power and authority necessary to consummate the transactions contemplated by the Agreement, (iii) have taken all corporate action necessary to authorize and approve the Agreement and the consummation by the Debtors of the transactions contemplated thereby, and (iv) no consents or approvals, other than those expressly provided for in the Agreement, are required for the Debtors to consummate such transactions.

G. Approval of the Agreement and consummation of the Sale at this time are in the best interests of the Debtors, their creditors, their estates, and other parties in interest.

H. The Debtors have demonstrated both (i) good, sufficient, and sound business purposes and justifications and (ii) compelling circumstances for the Sale pursuant to section 363(b) of the Bankruptcy Code prior to, and outside of, a plan of reorganization in that, among other things, absent the Sale the value of the Assets will be harmed.

I. A reasonable opportunity to object or be heard with respect to the Motion and the relief requested therein has been afforded to all interested persons and entities, including: (i) the Office of the United States Trustee; (ii) counsel for the Purchaser; (iii) counsel any statutory committee appointed in these cases; (iv) all entities known to have expressed a bona fide interest in acquiring the Assets; (v) all entities (or counsel therefor) known to have asserted any lien, claim, encumbrance, right of refusal or other interest in or upon the Assets; (vi) all federal, state, and local regulatory or taxing authorities or recording offices which have a reasonably known interest in the relief requested by the Motion; (vii) all non-debtor parties to the Assumed Contracts; (viii) the United States Attorney's office; (ix) the Securities and Exchange Commission; (x) the Internal Revenue Service; (xi) the Environmental Protection Agency; (xii) all state and local environmental agencies in any jurisdiction where the Seller owns or has owned or used real property; and (xiii) all entities who have filed a request for service of papers in these cases.

J. The Agreement was negotiated, proposed and entered into by the Debtors and the Purchaser without collusion, in good faith, and from arm's-length bargaining positions. Neither Top-Flite, Lisco nor the Purchaser have engaged in any conduct that would cause or permit the Agreement to be avoided under section 363(n) of the Bankruptcy Code.

K. The Purchaser is a good faith purchaser under section 363(m) of the Bankruptcy Code and, as such, is entitled to all of the protections afforded thereby.

L. The Purchaser is not an "insider" of any of the Debtors, as that term is defined in section 101 of the Bankruptcy Code.

M. The consideration provided by the Purchaser for the Assets pursuant to the Agreement (i) is fair and reasonable, (ii) is the highest or otherwise best offer for the Assets, (iii) will provide a greater recovery for the Debtors' creditors than would be provided by any other practical available alternative, and (iv) constitutes reasonably equivalent value and fair consideration under the Bankruptcy Code and under the laws of the United States, any state, territory, possession, and the District of Columbia.

N. The Sale must be approved and consummated promptly in order to preserve the value of the Assets.

O. As of the Closing and pursuant to the terms of the Agreement, the transfer of the Assets to the Purchaser will be a legal, valid, enforceable, and effective transfer of the Assets, and will vest the Purchaser with all right, title, and interest of Top-Flite and Lisco in the Assets free and clear of all liens, claims, encumbrances and interests, including, but not limited to: (i) those that purport to give to any party a right or option to effect any forfeiture, modification, right of first refusal, or termination of the Debtors' or the Purchaser's interest in the Assets, or any similar rights; (ii) those relating to taxes arising under or out of, in connection with, or in any way relating to the operation of the Assets prior to the Closing, (iii) all mortgages, deeds of trust, security interests, conditional sale or other title retention agreements, pledges, liens, judgments, demands, encumbrances, options, rights of first refusal or charges of any kind or nature, if any, including, but not limited to, any restriction on the use, voting, transfer, receipt of income or other exercise of any attributes of ownership and (iv) all debts arising in any way in connection with any agreements, acts, or failures to act, of any of the Debtors or any of the

Debtors' predecessors or affiliates, claims (as that term is defined in the Bankruptcy Code), obligations, liabilities, demands, guaranties, options, rights, contractual or other commitments, restrictions, interests and matters of any kind and nature, whether known or unknown, contingent or otherwise, whether arising prior to or subsequent to the commencement of these bankruptcy cases, and whether imposed by agreement, understanding, law, equity or otherwise, including but not limited to claims otherwise arising under doctrines of successor liability (collectively, "Interests").

P. The Purchaser would not have entered into the Agreement and would not consummate the transactions contemplated thereby, thus adversely affecting the Debtors, their estates, and their creditors, if the sale of the Assets to the Purchaser and the assignment of the Assumed Contracts and Assumed Liabilities to the Purchaser was not free and clear of all Interests of any kind or nature whatsoever, or if the Purchaser would, or in the future could, be liable for any of the Interests, including, without limitation, the Excluded Liabilities.

Q. The Debtors may sell the Assets free and clear of all Interests of any kind or nature whatsoever because, in each case, one or more of the standards set forth in section 363(f)(l)-(5) of the Bankruptcy Code has been satisfied. Those (i) holders of Interests and (ii) non-debtor parties to Assumed Contracts who did not object, or who withdrew their objections, to the Sale or the Motion are deemed to have consented pursuant to section 363(f)(2) of the Bankruptcy Code. Those (i) holders of Interests and (ii) non-debtor parties to Assumed Contracts who did object fall within one or more of the other subsections of section 363(f) of the Bankruptcy Code and are adequately protected by having their Interests, if any, attach to the cash proceeds of the Sale ultimately attributable to the property against or in which they claim an Interest.

R. The Purchaser is not a successor to the Debtors or their bankruptcy estates by reason of any theory of law or equity, and the Purchasers shall not assume or in any way be responsible for any liability or obligation of any of the Debtors and/or their bankruptcy estates, except as otherwise expressly provided in the Agreement.

S. The sale of the Assets to the Purchaser is a prerequisite to the Debtors' ability to confirm and consummate chapter 11 plans.

T. The Debtors have demonstrated that it is an exercise of their sound business judgment to assume and assign the Assumed Contracts to the Purchaser in connection with the consummation of the Sale, and the assumption and assignment of the Assumed Contracts is in the best interests of the Debtors, their estates, and their creditors. The Assumed Contracts being assigned to the Purchaser, and the Assumed Liabilities are an integral part of the Agreement and the Acquired Business and, accordingly, such assumption and assignment of Assumed Contracts and the Assumed Liabilities are reasonable and enhance the value of the Debtors' estates.

U. The Debtors have (i) cured, or provided adequate assurance of cure, of any default existing prior to the date hereof under any of the Assumed Contracts, within the meaning of section 365(b)(l)(A) of the Bankruptcy Code and (ii) provided compensation or adequate assurance of compensation to any party for any actual pecuniary loss to such party resulting from a default prior to the date hereof under any of the Assumed Contracts, within the meaning of section 365(b)(1)(B) of the Bankruptcy Code, and the Purchaser has provided adequate assurance of their future performance of and under the Assumed Contracts, within the meaning of sections 365(b)(1) and 365(f)(2) of the Bankruptcy Code.

V. Approval of the Agreement and assumption and assignment of the Assumed Contracts and consummation of the Sale of the Assets at this time are in the best interests of the Debtors, their creditors, their estates and other parties in interest.

NOW THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED THAT:

1. The Motion is granted, as further described herein.

2. All objections to the Motion or the relief requested therein that have not been withdrawn, waived, or settled, and all reservations of rights included therein, hereby are overruled on the merits.

APPROVAL OF THE AGREEMENT

3. The Agreement, and all of the terms and conditions thereof, is hereby approved.

4. Pursuant to sections 363(b) of the Bankruptcy Code, the Debtors are authorized to perform their obligations under and comply with the terms of the Agreement, and consummate the Sale, pursuant to and in accordance with the terms and conditions of the Agreement.

5. The Debtors are authorized and directed to execute and deliver, and empowered to perform under, consummate and implement, the Agreement, together with all additional instruments, documents, and agreements that may be reasonably necessary or desirable to implement the Agreement, and to take all further actions as may be requested by the Purchaser for the purpose of assigning, transferring, granting, conveying and conferring to the Purchaser or reducing to possession, the Assets, or as may be necessary or appropriate to the performance of the obligations as contemplated by the Agreement.

6. This Order and the Agreement shall be binding in all respects upon all creditors (whether known or unknown) of any Debtor, all non-debtor parties to the Assumed Contracts, all successors and assigns of the Purchaser, the Debtors and their affiliates and subsidiaries, and any subsequent trustees appointed in the Debtors' chapter 11 cases or upon a conversion to chapter 7 under the Bankruptcy Code, and shall not be subject to rejection. Nothing contained in any chapter 11 plan confirmed in these bankruptcy cases or the confirmation order confirming any such chapter 11 plan shall conflict with or derogate from the provisions of the Agreement or this Order.

7. The Agreement and any related agreements, documents, or other instruments may be modified, amended or supplemented by the parties thereto in a writing signed by both parties, and in accordance with the terms thereof, without further order of the Court, provided that any such modification, amendment, or supplement does not have a material adverse effect on the Debtors' estates.

TRANSFER OF ASSETS

8. Except as expressly permitted or otherwise specifically provided for in the Agreement or this Order, pursuant to sections 105(a) and 363(f) of the Bankruptcy Code, the Assets shall be transferred to the Purchaser, and upon consummation of the Agreement (the "Closing"), shall be free and clear of all Interests of any kind or nature whatsoever with all such Interests of any kind or nature whatsoever to attach to the net proceeds of the Sale in the order of their priority, with the same validity, force and effect which they now have as against the Assets, subject to any claims and defenses the Debtors may possess with respect thereto.

9. Except as expressly permitted or otherwise specifically provided by the Agreement or this Order, all persons and entities, including, but not limited to, all debt security

holders, equity security holders, governmental, tax, and regulatory authorities, parties to executory contracts, customers, lenders, trade and other creditors, holding Interests of any kind or nature whatsoever against or in the Debtors or the Assets (whether legal or equitable, secured or unsecured, matured or unmatured, contingent or non-contingent, senior or subordinated), arising under or out of, in connection with, or in any way relating to, the Debtors, the Assets, the operation of the Debtors' business prior to the Closing, or the transfer of the Assets to the Purchaser, hereby are forever barred, estopped, and permanently enjoined from asserting against the Purchaser, its successors or assigns, its property, or the Assets, such persons' or entities' Interests.

10. The transfer of the Assets to the Purchaser pursuant to the Agreement shall constitute a legal, valid, and effective transfer of the Assets, and shall vest the Purchaser with all right, title, and interest of the Debtors in and to the Assets free and clear of all Interests of any kind or nature whatsoever.

11. If any person or entity that has filed financing statements, mortgages, mechanic's liens, lis pendens, or other documents or agreements evidencing Interests in the Debtors or the Assets shall not have delivered to the Debtors prior to the Closing, in proper form for filing and executed by the appropriate parties, termination statements, instruments of satisfaction, releases of all Interests which the person or entity has with respect to the Debtors or the Assets or otherwise, then (a) the Debtors are hereby authorized and directed to execute and file such statements, instruments, releases and other documents on behalf of the person or entity with respect to the Assets and (b) the Purchaser is hereby authorized to file, register, or otherwise record a certified copy of this Order, which, once filed, registered or otherwise recorded, shall

constitute conclusive evidence of the release of all Interests in the Assets of any kind or nature whatsoever.

ASSUMPTION AND ASSIGNMENT
TO PURCHASER OF ASSUMED CONTRACTS

12. Pursuant to sections 105(a) and 365 of the Bankruptcy Code, and subject to and conditioned upon the Closing, the Debtors' assumption and assignment to the Purchaser, and the Purchaser's assumption on the terms set forth in the Agreement, of the Assumed Contracts is hereby approved, and the requirements of section 365(b)(l) of the Bankruptcy Code with respect thereto are hereby deemed satisfied.

13. The Debtors are hereby authorized and directed in accordance with sections 105(a) and 365 of the Bankruptcy Code to (a) assume and assign to the Purchaser, effective upon the Closing, the Assumed Contracts free and clear of all Interests of any kind or nature whatsoever and (b) execute and deliver to the Purchaser such documents or other instruments as may be necessary to assign and transfer the Assumed Contracts and Assumed Liabilities to the Purchaser.

14. With respect to the Assumed Contracts: (a) the Assumed Contracts shall be transferred and assigned to, and following the Closing of the Sale remain in full force and effect for the benefit of, the Purchaser in accordance with their respective terms, notwithstanding any provision in any such Assumed Contract (including those of the type described in sections 365(b)(2) and (f) of the Bankruptcy Code) that prohibits, restricts, or conditions such assignment or transfer and, pursuant to section 365(k) of the Bankruptcy Code, the Debtors shall be relieved from any further liability with respect to the Assumed Contracts after such transfer and assignment to the Purchaser; (b) which are executory contracts of the Debtors under Section 365 of the Bankruptcy Code, the Debtors may assume such Assumed Contracts in accordance with

section 365 of the Bankruptcy Code; (c) the Debtors may assign each Assumed Contract in accordance with sections 363 and 365 of the Bankruptcy Code, and any provisions in any Assumed Contract that prohibit or condition the assignment of such Assumed Contract or allow the non-debtor party to such Assumed Contract to terminate, recapture, impose any penalty, condition renewal or extension, or modify any term or condition upon the assignment of such Assumed Contract, shall constitute unenforceable anti-assignment provisions which are void and of no force and effect; (d) all other requirements and conditions under sections 363 and 365 of the Bankruptcy Code for the assumption and assignment by the Debtors to the Purchaser of each Assumed Contract have been satisfied; and (e) upon Closing, in accordance with sections 363 and 365 of the Bankruptcy Code, the Purchaser shall be fully and irrevocably vested in all right, title and interest of each Assumed Contract. Any portion of any Assumed Contract which purports to permit the landlord to cancel the remaining term of such Assumed Contract if the Debtors discontinue their use or operation of the leased premises are void and of no force and effect, and shall not be enforceable against Purchaser, its assignees and sublessees; and the landlords under any such Assumed Contract shall not have the right to cancel or otherwise modify the Assumed Contract or increase the rent, assert any claim or impose any penalty by reason of such discontinuation, the Debtors' cessation of operations, the assignment of such Assumed Contract to Purchaser, or the interruption of business activities at any of the leased premises.

15. All defaults or other obligations of the Debtors under the Assumed Contracts arising or accruing prior to the Closing under the Agreement (without giving effect to any acceleration clauses or any default provisions of the kind specified in section 365(b)(2) of the Bankruptcy Code) shall be cured by the Debtors at the Closing of the Sale or as soon

thereafter as practicable, and the Purchaser shall have no liability or obligation arising or accruing prior to the date of the Closing, except as otherwise expressly provided in the Agreement.

16. The Debtors are hereby authorized and directed to pay all Cure Costs under the Assumed Contracts out of the proceeds of the Sale.

17. Each non-debtor party to an Assumed Contract hereby is forever barred, estopped, and permanently enjoined from asserting against the Purchaser, or its property, any default existing as of the Closing. The Debtors shall be exclusively responsible for payment of all cure costs with respect to the Assumed Contracts pursuant to section 365 of the Bankruptcy Code.

18. Except as provided in the Agreement or this Order, after the Closing, the Debtors and their estates shall have no further liabilities or obligations with respect to any Assumed Liabilities and all holders of such claims are forever barred and estopped from asserting such claims against the Debtors, their successors or assigns, their property or their assets or estates.

ADDITIONAL PROVISIONS

19. The consideration provided by the Purchaser for the Assets under the Agreement shall be deemed to constitute reasonably equivalent value and fair consideration under the Bankruptcy Code and under the laws of the United States, any state, territory, possession, and the District of Columbia.

20. The consideration provided by the Purchaser for the Assets under the Agreement is fair and reasonable and may not be avoided under section 363(n) of the Bankruptcy Code.

21. On the Closing, each of the Debtors' creditors is authorized and directed to execute such documents and take all other actions as may be necessary to release its Interests in the Assets, if any, as such Interests may have been recorded or may otherwise exist.

22. This Order (a) shall be effective as a determination that, on the Closing, all Interests of any kind or nature whatsoever existing as to the Debtors or the Assets prior to the Closing have been unconditionally released, discharged and terminated (other than the Assumed Liabilities), and that the conveyances described herein have been effected and (b) shall be binding upon and shall govern the acts of all entities including without limitation, all filing agents, filing officers, title agents, title companies, recorders of mortgages, recorders of deeds, registrars of deeds, administrative agencies, governmental departments, secretaries of state, federal, state, and local officials, and all other persons and entities who may be required by operation of law, the duties of their office, or contract, to accept, file, register or otherwise record or release any documents or instruments, or who may be required to report or insure any title or state of title in or to any of the Assets.

23. Except as otherwise expressly provided in the Agreement, Purchaser shall have no obligation to pay wages, bonuses, severance pay, benefits (including, without limitation, contributions or payments on account of any under-funding with respect to any and all pension plans) or any other payment to employees of the Debtors. Purchaser shall have no liability with respect to any collective bargaining agreement, employee pension plan, employee welfare or retention, benefit and/or incentive plan to which any Debtors are a party (including, without limitation, arising from or related to the rejection or other termination of any such agreement), and Purchaser shall in no way be deemed a party to or assignee of any such agreement, and no employee of Purchaser shall be deemed in any way covered by or a party to any such agreement,

and all parties to any such agreement are hereby enjoined from asserting against Purchaser any and all claims arising from or relating to such agreement. Any and all notices required to be given to the Debtors' employees pursuant to The Worker Adjustment and Retraining Notification Act (the "WARN Act"), or any similar federal or state law, shall be the sole responsibility and obligation of the Debtors and Purchaser shall have no responsibility or liability therefor.

24. Any amounts that become payable by the Debtors to Purchaser pursuant to the Agreement (and related agreements executed in connection therewith) (a) shall constitute administrative expenses of the Debtors' estates under Section 503(b) and 507(a)(l) of the Bankruptcy Code and (b) shall be paid by the Debtors in the time and manner provided for in the Agreement (and such related agreements) without further Court order.

25. All entities who are presently, or on the Closing may be, in possession of some or all of the Assets are hereby directed to surrender possession of the Assets to the Purchaser on the Closing.

26. Except for the Assumed Liabilities or as expressly permitted or otherwise specifically provided for in the Agreement or this Order, the Purchaser shall have no liability or responsibility for any liability or other obligation of the Debtors arising under or related to the Assets. Without limiting the generality of the foregoing, and except as otherwise specifically provided herein and in the Agreement, to the extent allowed by law, the Purchaser shall not be liable for any claims against the Debtors or any of their predecessors or affiliates, and the Purchaser shall have no successor or vicarious liabilities of any kind or character including but not limited to any theory of antitrust, environmental, successor or transferee liability, labor law, de facto merger, or substantial continuity, whether known or unknown as of the Closing, now existing or hereafter arising, whether fixed or contingent, with respect to the Debtors or any

obligations of the Debtors arising prior to the Closing, including, but not limited to, liabilities on account of any taxes arising, accruing, or payable under, out of, in connection with, or in any way relating to the operation of the Debtors' business prior to the Closing.

27. Following the Closing, no holder of an Interest in the Debtors or the Assets shall interfere with the Purchaser's title to or use and enjoyment of the Assets based on or related to such Interest, or any actions that the Debtors may take in their chapter 11 cases.

28. This Court retains jurisdiction to enforce and implement the terms and provisions of the Agreement, all amendments thereto, any waivers and consents thereunder, and of each of the agreements executed in connection therewith in all respects, including, but not limited to, retaining jurisdiction to (a) compel delivery of the Assets to the Purchaser, (b) compel delivery of the purchase price or performance of other obligations owed to the Debtors, (c) resolve any disputes arising under or related to the Agreement, except as otherwise provided therein, (d) interpret, implement, and enforce the provisions of this Order, and (e) protect the Purchaser against (i) any of the Excluded Liabilities or (ii) any Interests in the Debtors or the Assets, of any kind or nature whatsoever.

29. Notwithstanding Fed. R. Bankr. P. 6004(g) and 6006(d), this Order shall be effective and enforceable immediately upon entry and its provisions shall be self-executing. In the absence of any entity obtaining a stay pending appeal, the Debtors and the Purchaser are free to close under the Agreement at any time. The transactions contemplated by the Agreement are undertaken by the Purchaser in good faith, as that term is used in section 363(m) of the Bankruptcy Code, and accordingly, the reversal or modification on appeal of the authorization provided herein to consummate the Sale shall not affect the validity of the Sale to the Purchaser (including the assumption and assignment of any of the Assumed Contracts), unless such

authorization is duly stayed pending such appeal. The Purchaser is a purchaser in good faith of the Assets, and is entitled to all of the protections afforded by section 363(m) of the Bankruptcy Code.

30. The terms and provisions of the Agreement and this Order shall be binding in all respects upon, and shall inure to the benefit of, the Debtors, their estates, and their creditors, the Purchaser, and its respective affiliates, successors and assigns, and any affected third parties including, but not limited to, all persons asserting Interests in the Assets to be sold to the Purchaser pursuant to the Agreement, notwithstanding any subsequent appointment of any trustee(s) under any chapter of the Bankruptcy Code, as to which trustee(s) such terms and provisions likewise shall be binding.

31. The failure specifically to include any particular provisions of the Agreement in this Order shall not diminish or impair the effectiveness of such provision, it being the intent of the Court that the Agreement be authorized and approved in its entirety.

32. Each and every federal, state and local government agency or department is hereby authorized to accept any and all documents and instruments necessary and appropriate to consummate the transfer of any of the Assets, all without imposition or payment of any stamp tax, transfer tax, or similar tax, pursuant to section 1146(c) of the Bankruptcy Code.

Dated: Wilmington, Delaware
August ____, 2003

_____
UNITED STATES BANKRUPTCY JUDGE

Exhibit E

[FORM OF]

INDEMNITY ESCROW AGREEMENT

THIS INDEMNITY ESCROW AGREEMENT (this "Agreement"), is made as of [_____], 2003, by and among [U.S. Bank National Association] having an office at [_____], (the "Escrow Agent"), The Top-Flite Golf Company, a Delaware corporation (the "Seller"), and Callaway Golf Company, a Delaware corporation (the "Purchaser").

WHEREAS, the Purchaser and the Seller are parties to that certain Asset Purchase Agreement, dated as of June 30, 2003 (as the same may be amended from time to time, the "Purchase Agreement"), pursuant to which the Purchaser is acquiring the Assets of the Business; and

WHEREAS, pursuant to Article VIII of the Purchase Agreement, the Seller has agreed to indemnify, defend and hold harmless the Purchaser's Indemnified Persons from and against Losses; and

WHEREAS, at the Closing the Purchaser shall have delivered to the Escrow Agent the Indemnity Deposit. Such Indemnity Deposit is to be used as security for Losses incurred by the Purchaser's Indemnified Persons in a manner set forth herein.

NOW, THEREFORE, in consideration of the premises and the mutual promises and covenants contained herein, the parties hereby agree as follows:

1. Definitions. Capitalized terms used and not defined herein shall have the respective meanings ascribed to them in the Purchase Agreement.

2. Escrow Agent and Escrow Account.

2.1 Escrow Agent. The Purchaser and the Seller hereby appoint the Escrow Agent as the escrow agent to hold the Indemnity Deposit in accordance with the terms, conditions and provisions of this Agreement, and the Escrow Agent hereby accepts such appointment subject to the terms, conditions and provisions of this Agreement.

2.2 Escrow Account. On the Closing Date, the Purchaser shall deposit with the Escrow Agent, by wire transfer of the Indemnity Deposit in immediately available funds to the escrow account set forth on Schedule A attached hereto (the "Escrow Account"). The Escrow Agent hereby acknowledges receipt of such sum.

3. Investment of the Indemnity Deposit.

3.1 Investment. The Escrow Agent, as directed in writing by the Seller, shall invest any or all of the Indemnity Deposit, and any undistributed income or interest earned or accrued with respect thereto, in any of the following: (i) obligations issued or guaranteed by the United States of America or any agency or instrumentality thereof with a maturity of not more

than 30 days; (ii) certificates of deposit (including money market certificates and similar instruments) of or accounts with national banks, holding companies of national banks or corporations endowed with trust powers having, in any case, capital and surplus in excess of $250,000,000 at the time of investment, with a maturity in each case not to exceed 30 days; (iii) commercial paper at the time of investment and any renewal rated A-1 by Standard & Poor's Corporation or Prime-1 by Moody's Investor's Service, Inc.; and (iv) money market funds substantially all of whose funds are invested in any of the foregoing.

3.2 Quarterly Statements. As soon as practicable following each September 30th, December 31st, March 31st and June 30th commencing after the Closing Date during the term of this Agreement, the Escrow Agent shall deliver to the Purchaser and the Seller a statement (a "Quarterly Statement") setting forth: (a) the value of the Escrow Account at such date; (b) the amount of income or interest earned or accrued with respect thereto during the period covered by such Quarterly Statement; and (c) the amounts owed or paid to the Purchaser from the Escrow Account pursuant to Sections 8.1 and 8.2 of the Purchase Agreement with respect to the period covered by such Quarterly Statement.

3.3 Distribution of Income. Any income or interest earned in respect of the Indemnity Deposit, if any, shall be distributed to the Seller on a monthly basis.

3.4 Certificate of Incumbency. The Purchaser and the Seller shall each execute and deliver to the Escrow Agent a certificate of incumbency substantially in the form of Schedule C hereto for the purpose of establishing the identity of the Representatives of the Purchaser and the Seller entitled to issue instructions or directions to the Escrow Agent on behalf of each such party. In the event of any change in the identity of such Representatives, a new certificate of incumbency shall be executed and delivered to the Escrow Agent by the appropriate party. Until such time as the Escrow Agent shall receive a new incumbency certificate, the Escrow Agent shall be fully protected in relying without inquiry on any then current incumbency certificate on file with the Escrow Agent.

4. Assigned Inventory Adjustment. The Escrow Account shall be used to pay all amounts due and owing to the Purchaser, if any, pursuant to the terms and conditions of Section 1.6 of the Purchase Agreement. Upon determination of the Final Closing Date Statement, the Seller and the Purchaser shall deliver a notice, signed by both the Seller and the Purchaser, to the Escrow Agent instructing the Escrow Agent to pay to the Purchaser the appropriate amount, if any, from the Escrow Account.

5. Procedures with Respect to Indemnity Claims.

5.1 Claims by Purchaser. If, at any time and from time to time on or prior to the one year anniversary of the date hereof, the Purchaser incurs any Losses for which it is entitled to be indemnified in accordance with Sections 8.1 and 8.2 of the Purchase Agreement, the Purchaser shall deliver to the Seller and the Escrow Agent written notice (a "Loss Notice") specifying the amount of any such Losses for which the Purchaser believes in good faith it is entitled to indemnification (the "Claimed Amount"). Such Loss Notice shall be accompanied by a reasonably full description of the basis for such claim and shall reference the provisions of the Purchase Agreement pursuant to which liability is asserted.

5.2 Response by Seller. Within 30 days after receipt by the Seller of any Loss Notice, the Seller shall, with respect to such Loss Notice, by notice to the Purchaser and the Escrow Agent (a "Response Notice"), either (a) concede liability for the Claimed Amount in whole or (b) deny liability for the Claimed Amount in whole or in part (it being understood that any portion of the Claimed Amount for which the Seller has not denied liability shall be deemed to have been conceded). If the Seller shall deny liability in whole or in part, such Response Notice shall be accompanied by a reasonably full description of the basis for such denial. The portion of the Claimed Amount for which the Seller has conceded liability is referred to herein as the "Conceded Amount." If the Seller shall fail to deliver the Response Notice within the aforesaid 30-day period, the Seller shall be deemed to have conceded the entire Claimed Amount.

5.3 Resolutions of Disputes. If the Seller has denied liability for the Claimed Amount, in whole or in part, the parties shall attempt to resolve such dispute as promptly as possible. If the Purchaser and the Seller resolve such dispute, they shall deliver a notice to that effect to the Escrow Agent (a "Settlement Notice") signed by each of them. Such Settlement Notice shall permit the Escrow Agent to pay to the Purchaser the amount, if any, agreed to by both the Purchaser and the Seller in settlement of such dispute (the "Agreed Settlement Amount"). If the Purchaser and the Seller fail to resolve such dispute within 60 days after receipt by the Purchaser of the Response Notice corresponding to such dispute, the Purchaser may (i) commence appropriate legal proceedings in order to obtain a final judgment of a court of competent jurisdiction that is not subject to further appeal (a "Final Order"). In the event that the Final Order contains a finding of liability against the Seller in a specified amount (the "Judgment Amount"), the Purchaser shall promptly deliver written notice to the Escrow Agent and the Seller (which notice shall be accompanied by such Final Order), advising the Escrow Agent and the Seller to pay to the Purchaser such Judgment Amount to the extent available from the Escrow Account. In the event that (a) the Purchaser shall fail to commence such proceedings within 90 days after receipt by the Purchaser of the Response Notice or (b) the Seller shall have obtained a Final Order dismissing such proceeding or finding no liability on the part of Seller, the relevant Loss Notice shall be deemed to have expired and the Purchaser shall have no recourse against the Escrow Account with respect to such Loss; provided, however, that clause (a) above shall not preclude the Purchaser from claiming the amount equal to such Claimed Amount with respect to a completely distinct, other Loss.

5.4 Payment of Claims. As promptly as practicable (and in any event no more than fifteen (15) days following the resolution or settlement of a dispute pursuant to Section 5.2 and 5.3 hereof), the Escrow Agent shall pay to the Purchaser from the Escrow Account by wire transfer of immediately available funds the following amounts, as applicable: (a) following any concession of liability by the Seller, in whole or in part, the Conceded Amount; (b) following the receipt by the Escrow Agent of any Settlement Notice, the Agreed Settlement Amount; or (c) following receipt by the Seller of any Final Order, the Judgment Amount; provided, however, that the payments made to the Purchaser's Indemnified Parties out of the Escrow Account shall not exceed the Indemnity Deposit subject to Section 6.1 below in the aggregate.

5.5 Outstanding Claims. Any Loss Notice that is not resolved or disposed of pursuant to Section 5.2, 5.3 or 5.4 shall constitute an "Outstanding Claim." Following the one year anniversary of the date hereof, the Purchaser may not amend or otherwise modify any

Outstanding Claim or deliver a new Loss Notice. For the avoidance of doubt, any claim of the Purchaser's Indemnified Persons pursuant to the Purchase Agreement made after the expiration of the one year anniversary of the dated hereof shall not be secured and may not be satisfied by the Escrow Account.

6. Distributions to the Seller from the Escrow Account.

6.1 On the six month anniversary of the Closing Date, the Escrow Agent shall distribute to the Seller, by wire transfer of immediately available funds as directed by the Seller from time to time, the Released Amount, if any. The "Released Amount" shall be (i) the remaining Indemnity Deposit on the six month anniversary of the Closing Date minus (ii) the sum of (A) $6,250,000, plus (B) any amount then payable to the Purchaser's Indemnified Persons, plus (C) any additional Third Party Claims or Indemnity Claims claimed in good faith by the Purchaser's Indemnified Persons and disputed in good faith by the Seller as the Indemnifying Party. If the result of the foregoing calculation results in the Released Amount being zero or a negative number, then no amount shall be released from the Indemnity Deposit on the six month anniversary of the Closing Date.

6.2 On the one year anniversary of the date hereof, the Escrow Agent shall distribute to the Seller, by wire transfer of immediately available funds as directed by the Seller from time to time, the entire Escrow Account less the aggregate amount of all Outstanding Claims and (ii) any amount then payable to the Purchaser's Indemnified Persons.

7. Termination of this Escrow Agreement. This Agreement shall terminate as to the Escrow Account, upon the full distribution of the Escrow Account pursuant to Sections 4, 5 and 6.

8. Disputes. In the event of any dispute as to the disposition of the Escrow Account, as the case may be or as to any other matters under this Agreement, the Escrow Agent is hereby authorized to deposit, upon five (5) Business Days' notice to the parties, the funds constituting the Escrow Account, with a court of competent jurisdiction. In connection with any such dispute, the Escrow Agent may elect, in its commercially reasonable discretion, to commence an interpleader action relating thereto.

9. Sole Duties. The Escrow Agent's sole duties hereunder are as indicated herein, and upon the disposition of the Escrow Account, as herein provided, the Escrow Agent shall be deemed to have performed its duties and shall be automatically discharged from any further obligation in connection therewith.

10. Escrow Agent Not Liable. The Escrow Agent, in the performance of its duties hereunder, shall not be liable or responsible for any authorization or omitted to be taken hereunder in good faith as herein provided, except for its own willful misconduct, recklessness, or gross negligence and except as provided in Section 14.6 of this Agreement.

11. Resignation; Successor Escrow Agent. The Escrow Agent or any successor escrow agent, as the case may be, may resign its duties and be discharged from all further duties or obligations hereunder at any time upon giving ten (10) Business Days' prior written notice to the parties hereto. The Seller and the Purchaser will thereupon jointly designate a successor escrow

agent hereunder within said ten (10) Business Day period to whom the Escrow Account shall be delivered. In default of such joint designation of a successor escrow agent, the Escrow Agent shall retain the Escrow Account as custodian thereof until otherwise directed by the Seller and the Purchaser, jointly, without further liability or responsibility.

12. Notices. All notices, requests, consents and demands to or upon the respective parties hereto shall be in writing, and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made (a) if delivered by hand (including by overnight courier), when delivered, (b) on the day after delivery to a nationally recognized overnight carrier service if sent by overnight delivery for next morning delivery, (c) in the case of mail, three (3) Business Days after deposit in United States first class mail, certified with return receipt requested and postage prepaid and (d) in the case of facsimile transmission, upon receipt of a legible copy. In each case: (x) if delivery is not made during normal business hours at the place of receipt, receipt and due notice under this Agreement shall be deemed to have been made on the immediately following Business Day, and (y) notice shall be sent to the address of the party to be notified, as follows, or to such other address as may be hereafter designated by the respective parties hereto in accordance with these notice provisions:

If to the Purchaser, to:

Callaway Golf Company
2180 Rutherford Road
Carlsbad, CA 92008-7328
Attention: Steve McCracken, Esq.
Facsimile: (760) 804-4242

with a copy to:

Gibson, Dunn & Crutcher LLP
Jamboree Center
4 Park Plaza, Suite 1400
Irvine, California 92614-8557
Attention: Thomas Magill, Esq.
Facsimile: (949) 475-4648

If to the Seller, to:

The Top-Flite Golf Company
425 Meadow Street
Chicapee, MA 01013-2135
Facsimile: (413) 322-2200
Attention: Peter A. Arturi, Esq.

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, NY 10019-6064
Facsimile: (212) 757-3990
Attention: Kenneth M. Schneider, Esq.

If to the Escrow Agent, to:

[U.S. Bank National Association]

_____
_____
Facsimile: _____
Attention: _____

The Escrow Agent shall promptly deliver a copy of any notice received by it in its capacity as the Escrow Agent to the Purchaser and the Seller.

13. Indemnification of Escrow Agent.

13.1 From and at all times after the date of this Escrow Agreement, the Seller and the Purchaser, jointly and severally, shall, to the fullest extent permitted by law, indemnify and hold harmless the Escrow Agent and each director, officer, employee, attorney, agent and affiliate of the Escrow Agent (collectively, the "Indemnified Parties") against any and all actions, claims, losses, damages, liabilities, costs and expenses of any kind or nature whatsoever (including without limitation reasonable attorneys' fees, costs and expenses) incurred by or asserted against any of the Indemnified Parties from and after the date hereof as a result of or arising from any claim, demand, suit, action or proceeding (including any inquiry or investigation) by any person, including without limitation the Seller or the Purchaser, whether threatened or initiated, asserting a claim for any legal or equitable remedy against any person under any statute or regulation, including, but not limited to, any federal or state securities laws, or under any common law or equitable cause or otherwise, arising from or in connection with the negotiation, preparation, execution, performance or failure of performance of this Agreement or any transactions contemplated herein, whether or not any such Indemnified Party is a party to any such action, proceeding, suit or the target of any such inquiry or investigation; provided, however, that no Indemnified Party shall have the right to be indemnified hereunder for any liability finally determined by a court of competent jurisdiction, subject to no further appeal, to have resulted solely from the gross negligence, recklessness, or willful misconduct of such Indemnified Party. The obligations of the Seller and the Purchaser under this Section 13 shall survive any termination of this Agreement.

13.2 The parties agree that neither the payment by the Seller or the Purchaser of any claim by the Escrow Agent for indemnification hereunder nor the disbursement of any amounts to the Escrow Agent from the Escrow Account in respect of a claim by Escrow Agent for indemnification shall impair, limit, modify, or affect, as between the Seller and the

Purchaser, the respective rights and obligations of the Seller, on the one hand, and the Purchaser, on the other hand, under the Purchase Agreement.

14. Miscellaneous Matters Concerning Escrow Agent.

14.1 The Escrow Agent shall be entitled to refrain from taking any action contemplated by this Agreement in the event that it becomes aware of any disagreement between the parties hereto as to any facts or as to the happening of any contemplated event precedent to such action.

14.2 The Escrow Agent shall have no responsibility or liability for any diminution in value of any assets held hereunder which may result from any investments or reinvestment made in accordance with any provision which may be contained herein.

14.3 The Escrow Agent shall be entitled to compensation for its services hereunder as per Schedule B attached hereto, which is made a part hereof, and for reimbursement of its reasonable and documented out-of-pocket expenses including, but not by way of limitation, the fees and costs of attorneys or agents which it may find necessary to engage in the performance of its duties hereunder, all to be paid one half (1/2) by the Purchaser and one half (1/2) by the Seller, and the Escrow Agent shall have, and is hereby granted, a prior lien upon any property, cash, or assets of the Escrow Account, as the case may be, with respect to its unpaid fees and nonreimbursed expenses, superior to the interests of any other persons or entities. In the event any such compensation, expenses, fees or costs are drawn by the Escrow Agent from the Escrow Account, as the case may be, the Seller and the Purchaser each agree to make appropriate payment to the other party such that each party ultimately receives the amount of the Indemnity Deposit that it is entitled to receive without reduction or deduction for the other party's one half (1/2) share of such compensation, expenses, fees or costs.

14.4 The Escrow Agent shall be entitled and is hereby granted the right to set off and deduct any unpaid fees and/or nonreimbursed expenses from amounts in the Escrow Account.

14.5 The Escrow Agent shall be under no obligation to invest the deposited funds or the income generated thereby until it has received a Form W-9 or W-8, as applicable, from the Purchaser and the Seller, regardless of whether such party is exempt from reporting or withholding requirements under the Internal Revenue Code of 1986, as amended.

14.6 The Escrow Agent shall have only those duties as are specifically provided herein, which shall be deemed purely ministerial in nature, and shall under no circumstance be deemed a fiduciary for any of the parties to this Agreement. The Escrow Agent shall neither be responsible for, nor chargeable with, knowledge of the terms and conditions of any other agreement, instrument or document between the other parties hereto, in connection herewith, including, without limitation, the Purchase Agreement. This Agreement sets forth all matters pertinent to the escrow contemplated hereunder, and no additional obligations of the Escrow Agent shall be inferred from the terms of this Agreement or any other agreement.

14.7 The Escrow Agent shall have the right, but not the obligation, to consult with counsel of choice and shall not be liable for action taken or omitted to be taken by the

Escrow Agent in accordance with the advice of such counsel. If the Escrow Agent becomes involved in litigation on account of this Agreement, it shall have the right to retain counsel and shall have a first lien on the property deposited hereunder for any and all reasonable and documented out-of-pocket costs, attorneys' fees, charges, disbursements, and expenses in connection with such litigation; and shall be entitled to reimburse itself therefor out of the property deposited hereunder, and if it shall be unable to reimburse itself from the property deposited hereunder, the Purchaser and the Seller jointly and severally agree to pay to the Escrow Agent on demand its reasonable and documented out-of-pocket charges, counsel and attorneys' fees, disbursements, and expenses in connection with such litigation.

14.8 Any entity into which the Escrow Agent may be merged, converted or with which the Escrow Agent may be consolidated, or any entity resulting from any merger, conversion or consolidation to which the Escrow Agent shall be a party, or any entity to which all or substantially all of the business of the Escrow Agent shall be transferred, shall succeed to all the Escrow Agent's rights, obligations and immunities hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

14.9 In the event that any escrow property shall be attached, garnished or levied upon by any court order (including, by bankruptcy), or the delivery thereof shall be stayed or enjoined by an order of a court, or any order, judgment or decree shall be made or entered by any court order affecting the property deposited under this Agreement, the Escrow Agent is hereby expressly authorized, in its sole discretion, to obey and comply with all writs, orders or decrees so entered or issued, which it is advised by legal counsel of its own choosing is binding upon it, whether with or without jurisdiction, and in the event that the Escrow Agent obeys or complies with any such writ, order or decree it shall not be liable to any of the parties hereto or to any other person, firm or entity, by reason of such compliance notwithstanding such writ, order or decree be subsequently reversed, modified, annulled, set aside or vacated.

14.10 The Escrow Agent shall report to the Internal Revenue Service, as of each calendar year-end, all income earned from the investment of the Escrow Account against the Purchaser or the Seller, whether or not said income has been distributed during such year, as and to the extent required by law. The Escrow Agent agrees, to the extent permitted by law, to make any such report as near as possible to the filing deadline therefor in order that it may report any income earned to the party which actually received the same. If the filing deadline for any calendar year shall occur prior to the distribution of such income, the Escrow Agent may report such income as earned by the Purchaser. Any tax returns required to be prepared and filed will be prepared and filed by the party which is reported to have received such income with the Internal Revenue Service in all years income is earned, whether or not income is received or distributed in any particular tax year, and Escrow Agent shall have no responsibility for the preparation and/or filing or any tax return with respect to any income earned by the Escrow Account. Any taxes payable on income earned from the investment of the Escrow Account shall be paid by the party which is reported to have received such income, whether or not the income was distributed by the Escrow Agent during any particular year. The Escrow Agent shall have no obligation to pay any taxes or estimated taxes. After the Escrow Account and the income earned thereon has been distributed by the Escrow Agent, the parties agree to cooperate and to file any amended reports

which may be necessary in order to correct any filings with the Internal Revenue Service which reported income as having been earned by a party which did not actually receive such income.

15. Entire Agreement. This Agreement and the Purchase Agreement contain the entire agreement among the parties with respect to the transactions contemplated hereby and supersede all prior agreements, written or oral, with respect thereto.

16. Amendment; Waiver. This Agreement may not be amended or modified except by an instrument in writing signed by the Seller, the Purchaser and the Escrow Agent. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

17. Governing Law. This Agreement and all Claims with respect thereto shall be governed by and construed in accordance with federal bankruptcy law, to the extent applicable, and, where state law is implicated, the laws of the State of New York without regard to any conflict of laws rules thereof that might indicate the application of the laws of any other jurisdiction.

18. Consent to Jurisdiction; Service of Process.

18.1 Consent of Jurisdiction. The Purchaser and the Seller irrevocably and unconditionally consent to submit to the jurisdiction of the Bankruptcy Court for any litigation arising out of or relating to this Agreement and the transactions contemplated hereby (and agree not to commence any litigation relating hereto except in the Bankruptcy Court).

18.2 Service of Process. Any and all service of process and any other notice in any such Claim shall be effective against any party if given personally or by registered or certified mail, return receipt requested, or by any other means of mail that requires a signed receipt, postage prepaid, mailed to such party as herein provided. Nothing herein contained shall be deemed to affect the right of any party to serve process in any manner permitted by law or to commence legal proceedings or otherwise proceed against any other party in any other jurisdiction.

19. WAIVER OF JURY TRIAL.

19.1 EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY THAT MAY ARISE UNDER OR IN CONNECTION WITH THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY.

19.2 EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE WAIVER IN SECTION 19.1, (ii) SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF SUCH WAIVER, (iii) SUCH PARTY MAKES SUCH WAIVER VOLUNTARILY AND (iv) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG

OTHER THINGS, THE MUTUAL WAIVERS, AGREEMENTS AND CERTIFICATIONS IN SECTION 19.1 AND THIS SECTION 19.2.

20. Assignment. This Agreement shall not be assigned without the express written consent of the Seller and the Purchaser (which consent may be granted or withheld in the sole discretion of the Seller and the Purchaser). Notwithstanding the foregoing, no assignment of the interest of any of the parties hereto shall be binding upon the Escrow Agent unless and until reasonable written evidence of such assignment shall be delivered to the Escrow Agent.

21. Counterparts. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all of the parties hereto.

22. Headings. The headings in this Agreement are for reference only, and shall not affect the interpretation of this Agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first above written.

PURCHASER:

CALLAWAY GOLF COMPANY

By:_____
Name:
Title:

SELLER:

THE TOP-FLITE GOLF COMPANY

By:_____
Name:
Title:

ESCROW AGENT:

[U.S. BANK NATIONAL ASSOCIATION]

By:_____
Name:
Title:

SCHEDULE A

ESCROW ACCOUNT INFORMATION

[U.S. Bank National Association]
ABA# [_____]
Account #[_____]
ATTN: [_____]
Re: [Account Name, NCS #]

SCHEDULE B

FEE SCHEDULE

Annual Charge(1)	[_____]

- ----------

(1) The annual charge shall be paid only for any year in which the Escrow Agent shall hold funds in escrow in respect of the Escrow Account.

SCHEDULE C

CERTIFICATE OF INCUMBENCY

The undersigned, (i) the duly elected, qualified and acting _____ of Callaway Golf Company, a Delaware corporation (the "Purchaser"), and [(ii) the duly elected, qualified and acting _____ of The Top-Flite Golf Company, a Delaware corporation (the "Seller")], each hereby certifies that he/she is authorized to execute this Certificate and further certifies that, as of the date hereof, each is authorized to sign and deliver all notices, agreements, documents, instruments and certificates to be executed and delivered by the Purchaser and the Seller, as the case may be, required or permitted to be delivered pursuant to that certain Indemnity Agreement, dated as of _____, 2003, by and among the Purchaser, the Seller and [U.S. Bank National Association] or in connection therewith, and that the signature appearing above his/her name is his/her true and genuine signature.

IN WITNESS WHEREOF, the undersigned have signed this Certificate this ___- day of _____, 200_.

CALLAWAY GOLF COMPANY

_____
Name:
Title:

THE TOP-FLITE GOLF COMPANY

_____
Name:
Title:

Exhibit F

[FORM OF]

CURRENT RECEIVABLES ESCROW AGREEMENT

THIS CURRENT RECEIVABLES ESCROW AGREEMENT (this "Agreement"), is made as of [_____], 2003, by and among [U.S. Bank National Association] having an office at [_____], (the "Escrow Agent"), The Top-Flite Golf Company, a Delaware corporation (the "Seller"), and Callaway Golf Company, a Delaware corporation (the "Purchaser").

WHEREAS, the Purchaser and the Seller are parties to that certain Asset Purchase Agreement, dated as of June 30, 2003 (as the same may be amended from time to time, the "Purchase Agreement"), pursuant to which the Purchaser is acquiring the Assets of the Business; and

WHEREAS, pursuant to Section 1.7 of the Purchase Agreement, the Seller has agreed to reimburse the Purchaser, at the Purchaser's election, for any Assigned Current Receivable which remains uncollected on the 181st day after the Closing Date; and

WHEREAS, at the Closing the Purchaser shall have delivered to the Escrow Agent the Current Receivables Deposit. Such Current Receivables Deposit is to be used as security for any Assigned Current Receivables which remain uncollected on the 181st day after the Closing Date.

NOW, THEREFORE, in consideration of the premises and the mutual promises and covenants contained herein, the parties hereby agree as follows:

1. Definitions. Capitalized terms used and not defined herein shall have the respective meanings ascribed to them in the Purchase Agreement.

2. Escrow Agent and Escrow Account.

2.1 Escrow Agent. The Purchaser and the Seller hereby appoint the Escrow Agent as the escrow agent to hold the Current Receivables Deposit in accordance with the terms, conditions and provisions of this Agreement, and the Escrow Agent hereby accepts such appointment subject to the terms, conditions and provisions of this Agreement.

2.2 Escrow Account. On the Closing Date the Purchaser shall deposit with the Escrow Agent, by wire transfer of the Current Receivables Deposit in immediately available funds to the escrow account set forth on Schedule A attached hereto (the "Escrow Account"). The Escrow Agent hereby acknowledges receipt of such sum.

3. Investment of the Current Receivables Deposit.

3.1 Investment. The Escrow Agent, as directed in writing by the Seller, shall invest any or all of the Current Receivables Deposit, and any undistributed income

or interest earned or accrued with respect thereto, in any of the following: (i) obligations issued or guaranteed by the United States of America or any agency or instrumentality thereof with a maturity of not more than 30 days; (ii) certificates of deposit (including money market certificates and similar instruments) of or accounts with national banks, holding companies of national banks or corporations endowed with trust powers having, in any case, capital and surplus in excess of $250,000,000 at the time of investment, with a maturity in each case not to exceed 30 days; (iii) commercial paper at the time of investment and any renewal rated A-1 by Standard & Poor's Corporation or Prime-1 by Moody's Investor's Service, Inc.; and (iv) money market funds substantially all of whose funds are invested in any of the foregoing.

3.2 Quarterly Statements. As soon as practicable following each September 30th, December 31st, March 31st and June 30th commencing after the Closing Date during the term of this Agreement, the Escrow Agent shall deliver to the Purchaser and the Seller a statement (a "Quarterly Statement") setting forth: (a) the value of the Escrow Account at such date and (b) the amount of income or interest earned or accrued with respect thereto during the period covered by such Quarterly Statement.

3.3 Distribution of Income. Any income or interest earned in respect of the Current Receivables Deposit, if any, shall be distributed to the Seller on a monthly basis.

3.4 Certificate of Incumbency. The Purchaser and the Seller shall each execute and deliver to the Escrow Agent a certificate of incumbency substantially in the form of Schedule C hereto for the purpose of establishing the identity of the Representatives of the Purchaser and the Seller entitled to issue instructions or directions to the Escrow Agent on behalf of each such party. In the event of any change in the identity of such Representatives, a new certificate of incumbency shall be executed and delivered to the Escrow Agent by the appropriate party. Until such time as the Escrow Agent shall receive a new incumbency certificate, the Escrow Agent shall be fully protected in relying without inquiry on any then current incumbency certificate on file with the Escrow Agent.

4. Assigned Current Receivables Deficiency.

4.1 If the Purchaser (i) elects, in its sole discretion on an account-by-account basis, within (5) Business Days after the 181st day after the Closing Date to assign any uncollected Assigned Current Receivables to the Seller and deduct an amount from the Current Receivables Deposit equal to the Deemed Closing Date A/R Value of such uncollected Assigned Current Receivables and/or (ii) is entitled to receive an amount calculated in accordance with Section 1.7(d) of the Purchase Agreement on account of Returned Goods (the sum of (i) and (ii) being referred to as the "A/R Claim Amount"), the Purchaser shall deliver to the Seller and to the Escrow Agent (i) a notice (the "A/R Claim Notice") setting forth the A/R Claim Amount and (ii) a certificate signed by the chief financial officer of the Purchaser certifying that such uncollected Assigned Current Receivables have been assigned to the Seller free and clear of all Liens (except for those uncollected Assigned Current Receivables which relate to Returned Goods, which, by their nature, cannot be assigned).

4.2 If the Seller agrees with the A/R Claim Amount set forth on the A/R Claim Notice, then a notice signed by both the Seller and the Purchaser shall be delivered to

the Escrow Agent instructing the Escrow Agent to promptly pay to the Purchaser the A/R Claim Amount, if any, from the Escrow Account.

4.3 If the Seller in good faith disagrees with the A/R Claim Amount set forth on the A/R Claim Notice, the Seller shall inform the Purchaser and the Escrow Agent in writing (the "Objection") no later than five (5) Business Days after receipt of the A/R Claim Notice, setting forth a description in reasonable detail of the basis of its objection(s) and the adjustments to the A/R Claim Notice and the A/R Claim Amount reflected thereon which the Seller believes should be made. The parties shall cooperate and seek in good faith to resolve any differences which they may have with respect to the Objection and to agree upon an adjusted amount, if any, to be paid to the Purchaser from the Current Receivables Deposit (the "Adjusted A/R Claim Amount"). Upon such resolution, a notice signed by both the Seller and the Purchaser shall be delivered to the Escrow Agent instructing the Escrow Agent to promptly pay to the Purchaser the Adjusted A/R Claim Amount from the Escrow Account.

4.4 If the Seller fails to provide a notice of Objection to the Purchaser and the Escrow Agent within five (5) Business Days after its receipt of the A/R Claim Notice, then the Escrow Agent shall promptly pay to the Purchaser the A/R Claim Amount.

4.5 The "Final A/R Claim Amount" shall be either (i) the A/R Claim Amount or (ii) the Adjusted A/R Claim Amount.

5. Distributions to the Seller from the Escrow Account. On the sixth Business Day after the 181st day after the Closing Date, the Escrow Agent shall distribute to the Seller, by wire transfer of immediately available funds as directed by the Seller from time to time, the entire Escrow Account less the Final A/R Claim Amount; provided, however, that the Escrow Agent shall not distribute any funds from the Escrow Account if it has not received an A/R Claim Notice from the Purchaser. If the Purchaser fails to provide an A/R Claim Notice within (5) Business Days after the 181st day after the Closing Date it will be deemed to have elected to assign any uncollected Assigned Current Receivables to the seller and deduct an amount from the Current Receivables Deposit equal to the A/R Claim Amount. In such event, the Purchaser and Seller shall work closely and cooperatively to agree upon the A/R Claim Amount, and shall, upon reaching such agreement, deliver to the Escrow Agent instructions regarding the amount to be disbursed to the Purchaser and the Seller. The Escrow Agent, upon receipt of such joint writing, shall promptly disburse to the parties the amounts set forth on such notice.

6. Termination of this Escrow Agreement. This Agreement shall terminate as to the Escrow Account, upon the full distribution of the Escrow Account pursuant to Sections 4 and 5.

7. Disputes. In the event of any dispute as to the disposition of the Escrow Account, as the case may be or as to any other matters under this Agreement, the Escrow Agent is hereby authorized to deposit, upon five (5) Business Days' notice to the parties, the funds constituting the Escrow Account, with a court of competent jurisdiction. In connection with any such dispute, the Escrow Agent may elect, in its commercially reasonable discretion, to commence an interpleader action relating thereto.

8. Sole Duties. The Escrow Agent's sole duties hereunder are as indicated herein, and upon the disposition of the Escrow Account, as herein provided, the Escrow Agent shall be deemed to have performed its duties and shall be automatically discharged from any further obligation in connection therewith.

9. Escrow Agent Not Liable. The Escrow Agent, in the performance of its duties hereunder, shall not be liable or responsible for any authorization or omitted to be taken hereunder in good faith as herein provided, except for its own willful misconduct, recklessness, or gross negligence and except as provided in Section 13.6 of this Agreement.

10. Resignation; Successor Escrow Agent. The Escrow Agent or any successor escrow agent, as the case may be, may resign its duties and be discharged from all further duties or obligations hereunder at any time upon giving ten (10) Business Days' prior written notice to the parties hereto. The Seller and the Purchaser will thereupon jointly designate a successor escrow agent hereunder within said ten (10) Business Day period to whom the Escrow Account shall be delivered. In default of such joint designation of a successor escrow agent, the Escrow Agent shall retain the Escrow Account as custodian thereof until otherwise directed by the Seller and the Purchaser, jointly, without further liability or responsibility.

11. Notices. All notices, requests, consents and demands to or upon the respective parties hereto shall be in writing, and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made (a) if delivered by hand (including by overnight courier), when delivered, (b) on the day after delivery to a nationally recognized overnight carrier service if sent by overnight delivery for next morning delivery, (c) in the case of mail, three (3) Business Days after deposit in United States first class mail, certified with return receipt requested and postage prepaid and (d) in the case of facsimile transmission, upon receipt of a legible copy. In each case: (x) if delivery is not made during normal business hours at the place of receipt, receipt and due notice under this Agreement shall be deemed to have been made on the immediately following Business Day, and (y) notice shall be sent to the address of the party to be notified, as follows, or to such other address as may be hereafter designated by the respective parties hereto in accordance with these notice provisions:

If to the Purchaser, to:

Callaway Golf Company
2180 Rutherford Road
Carlsbad, CA 92008-7328
Attention: Steve McCracken, Esq.
Facsimile: (760) 804-4242

with a copy to:

Gibson, Dunn & Crutcher LLP
Jamboree Center
4 Park Plaza, Suite 1400
Irvine, California 92614-8557
Attention: Thomas Magill, Esq.
Facsimile: (949) 475-4648

If to the Seller, to:

The Top-Flite Golf Company
425 Meadow Street
Chicapee, MA 01013-2135
Facsimile: (413) 322-2200
Attention: Peter A. Arturi, Esq.

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, NY 10019-6064
Facsimile: (212) 757-3990
Attention: Kenneth M. Schneider, Esq.

If to the Escrow Agent, to:

[U.S. Bank National Association]

_____
_____
Facsimile: _____
Attention: _____

The Escrow Agent shall promptly deliver a copy of any notice received by it in its capacity as the Escrow Agent to the Purchaser and the Seller.

12. Indemnification of Escrow Agent.

12.1 From and at all times after the date of this Escrow Agreement, the Seller and the Purchaser, jointly and severally, shall, to the fullest extent permitted by law, indemnify and hold harmless the Escrow Agent and each director, officer, employee, attorney, agent and affiliate of the Escrow Agent (collectively, the "Indemnified Parties") against any and all actions, claims, losses, damages, liabilities, costs and expenses of any kind or nature whatsoever (including without limitation reasonable attorneys' fees, costs and expenses) incurred by or asserted against any of the Indemnified Parties from and after the date hereof as a result of or arising from any claim, demand, suit, action or proceeding (including any inquiry or investigation) by any person, including without limitation the Seller or the Purchaser, whether threatened or initiated, asserting a claim for any legal or equitable remedy against any person

under any statute or regulation, including, but not limited to, any federal or state securities laws, or under any common law or equitable cause or otherwise, arising from or in connection with the negotiation, preparation, execution, performance or failure of performance of this Agreement or any transactions contemplated herein, whether or not any such Indemnified Party is a party to any such action, proceeding, suit or the target of any such inquiry or investigation; provided, however, that no Indemnified Party shall have the right to be indemnified hereunder for any liability finally determined by a court of competent jurisdiction, subject to no further appeal, to have resulted solely from the gross negligence, recklessness or willful misconduct of such Indemnified Party. The obligations of the Seller and the Purchaser under this Section 12 shall survive any termination of this Agreement.

12.2 The parties agree that neither the payment by the Seller or the Purchaser of any claim by the Escrow Agent for indemnification hereunder nor the disbursement of any amounts to the Escrow Agent from the Escrow Account in respect of a claim by Escrow Agent for indemnification shall impair, limit, modify, or affect, as between the Seller and the Purchaser, the respective rights and obligations of the Seller, on the one hand, and the Purchaser, on the other hand, under the Purchase Agreement.

13. Miscellaneous Matters Concerning Escrow Agent.

13.1 The Escrow Agent shall be entitled to refrain from taking any action contemplated by this Agreement in the event that it becomes aware of any disagreement between the parties hereto as to any facts or as to the happening of any contemplated event precedent to such action.

13.2 The Escrow Agent shall have no responsibility or liability for any diminution in value of any assets held hereunder which may result from any investments or reinvestment made in accordance with any provision which may be contained herein.

13.3 The Escrow Agent shall be entitled to compensation for its services hereunder as per Schedule B attached hereto, which is made a part hereof, and for reimbursement of its reasonable and documented out-of-pocket expenses including, but not by way of limitation, the fees and costs of attorneys or agents which it may find necessary to engage in the performance of its duties hereunder, all to be paid one half (1/2) by the Purchaser and one half (1/2) by the Seller, and the Escrow Agent shall have, and is hereby granted, a prior lien upon any property, cash, or assets of the Escrow Account, as the case may be, with respect to its unpaid fees and nonreimbursed expenses, superior to the interests of any other persons or entities. In the event any such compensation, expenses, fees or costs are drawn by the Escrow Agent from the Escrow Account, as the case may be, the Seller and the Purchaser each agree to make appropriate payment to the other party such that each party ultimately receives the amount of the Current Receivables Deposit that is entitled to receive without reduction or deduction for the other party's one half (1/2) share of such compensation, expenses, fees or costs.

13.4 The Escrow Agent shall be entitled and is hereby granted the right to set off and deduct any unpaid fees and/or nonreimbursed expenses from amounts in the Escrow Account.

13.5 The Escrow Agent shall be under no obligation to invest the deposited funds or the income generated thereby until it has received a Form W-9 or W-8, as applicable, from the Purchaser and the Seller, regardless of whether such party is exempt from reporting or withholding requirements under the Internal Revenue Code of 1986, as amended.

13.6 The Escrow Agent shall have only those duties as are specifically provided herein, which shall be deemed purely ministerial in nature, and shall under no circumstance be deemed a fiduciary for any of the parties to this Agreement. The Escrow Agent shall neither be responsible for, nor chargeable with, knowledge of the terms and conditions of any other agreement, instrument or document between the other parties hereto, in connection herewith, including, without limitation, the Purchase Agreement. This Agreement sets forth all matters pertinent to the escrow contemplated hereunder, and no additional obligations of the Escrow Agent shall be inferred from the terms of this Agreement or any other agreement.

13.7 The Escrow Agent shall have the right, but not the obligation, to consult with counsel of choice and shall not be liable for action taken or omitted to be taken by the Escrow Agent in accordance with the advice of such counsel. If the Escrow Agent becomes involved in litigation on account of this Agreement, it shall have the right to retain counsel and shall have a first lien on the property deposited hereunder for any and all reasonable and documented out-of-pocket costs, attorneys' fees, charges, disbursements, and expenses in connection with such litigation; and shall be entitled to reimburse itself therefor out of the property deposited hereunder, and if it shall be unable to reimburse itself from the property deposited hereunder, the Purchaser and the Seller jointly and severally agree to pay to the Escrow Agent on demand its reasonable and documented out-of-pocket charges, counsel and attorneys' fees, disbursements, and expenses in connection with such litigation.

13.8 Any entity into which the Escrow Agent may be merged, converted or with which the Escrow Agent may be consolidated, or any entity resulting from any merger, conversion or consolidation to which the Escrow Agent shall be a party, or any entity to which all or substantially all of the business of the Escrow Agent shall be transferred, shall succeed to all the Escrow Agent's rights, obligations and immunities hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

13.9 In the event that any escrow property shall be attached, garnished or levied upon by any court order (including, by bankruptcy), or the delivery thereof shall be stayed or enjoined by an order of a court, or any order, judgment or decree shall be made or entered by any court order affecting the property deposited under this Agreement, the Escrow Agent is hereby expressly authorized, in its sole discretion, to obey and comply with all writs, orders or decrees so entered or issued, which it is advised by legal counsel of its own choosing is binding upon it, whether with or without jurisdiction, and in the event that the Escrow Agent obeys or complies with any such writ, order or decree it shall not be liable to any of the parties hereto or to any other person, firm or entity, by reason of such compliance notwithstanding such writ, order or decree be subsequently reversed, modified, annulled, set aside or vacated.

13.10 The Escrow Agent shall report to the Internal Revenue Service, as of each calendar year-end, all income earned from the investment of the Escrow Account against

the Purchaser or the Seller, whether or not said income has been distributed during such year, as and to the extent required by law. The Escrow Agent agrees, to the extent permitted by law, to make any such report as near as possible to the filing deadline therefor in order that it may report any income earned to the party which actually received the same. If the filing deadline for any calendar year shall occur prior to the distribution of such income, the Escrow Agent may report such income as earned by the Purchaser. Any tax returns required to be prepared and filed will be prepared and filed by the party which is reported to have received such income with the Internal Revenue Service in all years income is earned, whether or not income is received or distributed in any particular tax year, and Escrow Agent shall have no responsibility for the preparation and/or filing or any tax return with respect to any income earned by the Escrow Account. Any taxes payable on income earned from the investment of the Escrow Account shall be paid by the party which is reported to have received such income, whether or not the income was distributed by the Escrow Agent during any particular year. The Escrow Agent shall have no obligation to pay any taxes or estimated taxes. After the Escrow Account and the income earned thereon has been distributed by the Escrow Agent, the parties agree to cooperate and to file any amended reports which may be necessary in order to correct any filings with the Internal Revenue Service which reported income as having been earned by a party which did not actually receive such income.

14. Entire Agreement. This Agreement and the Purchase Agreement contain the entire agreement among the parties with respect to the transactions contemplated hereby and supersede all prior agreements, written or oral, with respect thereto.

15. Amendment; Waiver. This Agreement may not be amended or modified except by an instrument in writing signed by the Seller, the Purchaser and the Escrow Agent. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

16. Governing Law. This Agreement and all Claims with respect thereto shall be governed by and construed in accordance with federal bankruptcy law, to the extent applicable, and, where state law is implicated, the laws of the State of New York without regard to any conflict of laws rules thereof that might indicate the application of the laws of any other jurisdiction.

17. Consent to Jurisdiction; Service of Process.

17.1 Consent of Jurisdiction. The Purchaser and the Seller irrevocably and unconditionally consent to submit to the jurisdiction of the Bankruptcy Court for any litigation arising out of or relating to this Agreement and the transactions contemplated hereby (and agree not to commence any litigation relating hereto except in the Bankruptcy Court).

17.2 Service of Process. Any and all service of process and any other notice in any such Claim shall be effective against any party if given personally or by registered or certified mail, return receipt requested, or by any other means of mail that requires a signed receipt, postage prepaid, mailed to such party as herein provided. Nothing herein contained shall be deemed to affect the right of any party to serve process in any manner permitted by law

or to commence legal proceedings or otherwise proceed against any other party in any other jurisdiction.

18. WAIVER OF JURY TRIAL.

18.1 EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY THAT MAY ARISE UNDER OR IN CONNECTION WITH THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY.

18.2 EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE WAIVER IN SECTION 18.1, (ii) SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF SUCH WAIVER, (iii) SUCH PARTY MAKES SUCH WAIVER VOLUNTARILY AND (iv) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS, AGREEMENTS AND CERTIFICATIONS IN SECTION 18.1 AND THIS SECTION 18.2.

19. Assignment. This Agreement shall not be assigned without the express written consent of the Seller and the Purchaser (which consent may be granted or withheld in the sole discretion of the Seller and the Purchaser). Notwithstanding the foregoing, no assignment of the interest of any of the parties hereto shall be binding upon the Escrow Agent unless and until reasonable written evidence of such assignment shall be delivered to the Escrow Agent.

20. Counterparts. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all of the parties hereto.

21. Headings. The headings in this Agreement are for reference only, and shall not affect the interpretation of this Agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first above written.

PURCHASER:

CALLAWAY GOLF COMPANY

By:_____
Name:
Title:

SELLER:

THE TOP-FLITE GOLF COMPANY

By:_____
Name:
Title:

ESCROW AGENT:

[U.S. BANK NATIONAL ASSOCIATION]

By:_____
Name:
Title:

SCHEDULE A

ESCROW ACCOUNT INFORMATION

[U.S. Bank National Association]
ABA# [_____]
Account #[_____]
ATTN: [_____]
Re: [Account Name, NCS #]

SCHEDULE B

FEE SCHEDULE

Annual Charge(1)	[_____]

- ---

(1) The annual charge shall be paid only for any year in which the Escrow Agent shall hold funds in escrow in respect of the Escrow Account.

SCHEDULE C

CERTIFICATE OF INCUMBENCY

The undersigned, (i) the duly elected, qualified and acting _____ of Callaway Golf Company, a Delaware corporation (the "Purchaser"), and [(ii) the duly elected, qualified and acting _____ of The Top-Flite Golf Company, a Delaware corporation (the "Seller")], each hereby certifies that he/she is authorized to execute this Certificate and further certifies that, as of the date hereof, each is authorized to sign and deliver all notices, agreements, documents, instruments and certificates to be executed and delivered by the Purchaser and the Seller, as the case may be, required or permitted to be delivered pursuant to that certain Indemnity Agreement, dated as of _____, 2003, by and among the Purchaser, the Seller and [U.S. Bank National Association] or in connection therewith, and that the signature appearing above his/her name is his/her true and genuine signature.

IN WITNESS WHEREOF, the undersigned have signed this Certificate this ___- day of _____, 200_.

CALLAWAY GOLF COMPANY

_____
Name:
Title:

THE TOP-FLITE GOLF COMPANY

_____
Name:
Title:

Exhibit G-1

[FORM OF]
DOMAIN NAME ASSIGNMENT

This Domain Name Assignment (this "Assignment") is made as of _____, 2003 by and among The Top-Flite Golf Company (f/k/a Spalding Sports Worldwide, Inc.), a Delaware corporation a Delaware corporation and LISCO Sports, Inc. a Delaware corporation, (collectively "Assignors"), and Callaway Golf Company, a Delaware corporation ("Assignee").

RECITALS

A. The Top-Flite Company (f/k/a Spalding Sports Worldwide, Inc.) and Callaway Golf Company have entered into the Asset Purchase Agreement dated as of June 30, 2003 (the "Purchase Agreement").

B. Pursuant to Section 1.1 of the Purchase Agreement, Assignors desire to assign to Assignee, and Assignee desires to acquire all of Assignors' right, title, and interest in and to all of the domain name registrations listed on Exhibit A attached hereto and incorporated herein, (ii) any intellectual property rights in such domain names, including the goodwill of the business symbolized thereby and (iii) any associated numerical internet protocol address related thereto (collectively, the "Assigned Domain Names").

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing premises, the covenants and agreements contained in the Purchase Agreement and in this Assignment, and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and to implement the assignment of Intellectual Property required by the Purchase Agreement, Assignors hereby agree as follows:

1. Capitalized terms used but not defined in this Assignment shall have the meanings ascribed to such terms in the Purchase Agreement.

2. Assignors do hereby sell, transfer, convey, assign, grant, set over and deliver to Assignee, and Assignee hereby accepts, all of Assignors' right, title, and interest in and to the Assigned Domain Names, free and clear of all liens, mortgages, options, charges, title defects, security interests and similar encumbrances, the same to be held by Assignee for Assignee's own use and enjoyment, and for the use and enjoyment of Assignee's successors, assigns, designees, nominees and other legal representatives, as fully and entirely as the same would have been held and enjoyed by Assignors if this Assignment and sale had not been made, together with all causes of action (in law or equity), claims, demands and any other rights for, or arising from any past, present or future infringement, of the Assigned Domain Names, along with the right to sue for and collect any damages for the use and benefit of Assignee and Assignee's successors, assigns, designees, nominees and other legal representatives.

3. Assignors represent, warrant, and covenant that the execution and delivery of this Assignment does not breach any agreement to which an Assignor is a party, and Assignors have

not entered into, and will not enter into, any oral or written agreement in conflict with this Assignment.

4. As may be requested by Assignee or its designees or other legal representatives from time to time after the date hereof, Assignors agree to assist Assignee, or Assignee's successors, assigns, designees, nominees or other legal representatives, in a commercially reasonable manner, without further consideration, to (i) evidence, record, and perfect the assignment of the Assigned Domain Names and (ii) secure Assignee's rights in the Assigned Domain Names, including, but not limited to, the execution, delivery and filing of all applications, specifications, oaths, assignments, powers-of-attorney, and similar instruments that Assignee deems reasonably necessary to assign and convey to Assignee, or Assignee's successors, assignees, designees, nominees or other legal representatives, all right, title and interest in and to the Assigned Domain Names.

IN WITNESS WHEREOF, this Assignment has been executed as of the day and year first written above.

ASSIGNORS:

THE TOP-FLITE GOLF COMPANY

By:_____
Name:_____

Title:_____

LISCO SPORTS COMPANY, Inc.

By:_____
Name:_____

Title:_____

ASSIGNEE:

CALLAWAY GOLF COMPANY

By:_____
Name:_____

Title:_____

ACKNOWLEDGEMENT BY NOTARY PUBLIC

State of _____

County of _____

On this _____ day of _____, 2003, before me, the undersigned Notary Public, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument, and acknowledged to me that he executed the same.

Seal: Signature:_____

Name: , Notary Public

EXHIBIT A

[FORM OF]
PATENT ASSIGNMENT

This Patent Assignment (this "Assignment") is made as of _____, 2003 by and between The Top-Flite Golf Company (f/k/a Spalding Sports Worldwide, Inc.), a Delaware corporation, ("Assignor"), and Callaway Golf Company, a Delaware corporation ("Assignee").

RECITALS

A. Assignor and Assignee have entered into the Asset Purchase Agreement dated as of June 30, 2003 (the "Purchase Agreement").

B. Pursuant to Section 1.1 of the Purchase Agreement, Assignor desires to assign to Assignee, and Assignee desires to acquire all of Assignor's right, title, and interest in and to all of the issued patents and pending patent applications listed on Exhibit A hereto (collectively, the "Assigned Patents").

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing premises, the covenants and agreements contained in the Purchase Agreement and in this Assignment, and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and to implement the assignment of Intellectual Property required by the Purchase Agreement, Assignor hereby agrees as follows:

1. Capitalized terms used but not defined in this Assignment shall have the meanings ascribed to such terms in the Purchase Agreement.

2. Assignor does hereby sell, transfer, convey, assign, grant, set over and deliver to Assignee, and Assignee hereby accepts, all of Assignor's right, title, and interest in and to the Assigned Patents, free and clear of all liens, mortgages, options, charges, title defects, security interests and similar encumbrances, the same to be held by Assignee for Assignee's own use and enjoyment, and for the use and enjoyment of Assignee's successors, assigns, designees, nominees and other legal representatives, as fully and entirely as the same would have been held and enjoyed by Assignor if this Assignment and sale had not been made, together with all causes of action (in law or equity), claims, demands and any other rights for, or arising from any past, present or future infringement, of the Assigned Patents, along with the right to sue for and collect any damages for the use and benefit of Assignee and Assignee's successors, assigns, designees, nominees and other legal representatives.

3. Assignor represents, warrants, and covenants that the execution and delivery of this Assignment does not breach any agreement to which Assignor is a party, and Assignor has not entered into, and will not enter into, any oral or written agreement in conflict with this Assignment.

4. As may be requested by Assignee or its designees or other legal representatives from time to time after the date hereof, Assignor agrees to assist Assignee, or Assignee's successors, assigns, designees, nominees or other legal representatives, in a commercially reasonable manner, without further consideration, to (i) evidence, record, and perfect the assignment of the Assigned Patents and (ii) secure Assignee's rights in the Assigned Patents, including, but not limited to, the execution, delivery and filing of all applications, specifications, oaths, assignments, powers-of-attorney, and similar instruments that Assignee deems reasonably necessary to assign and convey to Assignee, or Assignee's successors, assignees, designees, nominees or other legal representatives, all right, title and interest in and to the Assigned Patents.

5. Assignor hereby authorizes and requests the United States Patent and Trademark Office and any corresponding foreign office whose duty it is to issue, certify, or assign registrations or applications for patents to issue, certify or assign as appropriate, the same to Assignee and Assignee's successors, assigns, designees, nominees and other legal representatives in accordance with the terms of this Assignment.

IN WITNESS WHEREOF, this Assignment has been executed as of the day and year first written above.

ASSIGNOR:

THE TOP-FLITE GOLF COMPANY

By:_____
Name:_____

Title:_____

ASSIGNEE:

CALLAWAY GOLF COMPANY

By:_____
Name:_____

Title:_____

ACKNOWLEDGEMENT BY NOTARY PUBLIC

State of _____

County of _____

On this _____ day of _____, 2003, before me, the undersigned Notary Public, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument, and acknowledged to me that he executed the same.

Seal: Signature:_____

Name: , Notary Public

EXHIBIT A

Exhibit G-3

[FORM OF]
TRADEMARK ASSIGNMENT

This Trademark Assignment (this "Assignment") is made as of _____, 2003 by and among The Top-Flite Golf Company (f/k/a Spalding Sports Worldwide, Inc.), a Delaware corporation and LISCO Sports, Inc. a Delaware corporation, (collectively "Assignors"), and Callaway Golf Company, a Delaware corporation ("Assignee").

RECITALS

A. The Top-Flite Company (f/k/a Spalding Sports Worldwide, Inc.) and Callaway Golf Company have entered into the Asset Purchase Agreement dated as of June 30, 2003 (the "Purchase Agreement").

B. Pursuant to Section 1.1 of the Purchase Agreement, Assignors desire to assign to Assignee, and Assignee desires to acquire all of Assignors' right, title, and interest in and to all of the trademark registrations and applications listed on Exhibit A, including all goodwill associated therewith, (collectively, the "Assigned Trademarks").

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing premises, the covenants and agreements contained in the Purchase Agreement and in this Assignment, and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and to implement the assignment of Intellectual Property required by the Purchase Agreement, Assignors hereby agree as follows:

1. Capitalized terms used but not defined in this Assignment shall have the meanings ascribed to such terms in the Purchase Agreement.

2. Assignors do hereby sell, transfer, convey, assign, grant, set over and deliver to Assignee, and Assignee hereby accepts, all of Assignors' right, title, and interest in and to the Assigned Trademarks, free and clear of all liens, mortgages, options, charges, title defects, security interests and similar encumbrances, the same to be held by Assignee for Assignee's own use and enjoyment, and for the use and enjoyment of Assignee's successors, assigns, designees, nominees and other legal representatives, as fully and entirely as the same would have been held and enjoyed by Assignor if this Assignment and sale had not been made, together with all causes of action (in law or equity), claims, demands and any other rights for, or arising from any past, present or future infringement, of the Assigned Trademarks, along with the right to sue for and collect any damages for the use and benefit of Assignee and Assignee's successors, assigns, designees, nominees and other legal representatives.

3. Assignors represent, warrant, and covenant that the execution and delivery of this Assignment does not breach any agreement to which Assignors are a party, and Assignors have not entered into, and will not enter into, any oral or written agreement in conflict with this Assignment.

4. As may be requested by Assignee or its designees or other legal representatives from time to time after the date hereof, Assignors agree to assist Assignee, or Assignee's successors, assigns, designees, nominees or other legal representatives, in a commercially reasonable manner, without further consideration, to (i) evidence, record, and perfect the assignment of the Assigned Trademarks and (ii) secure Assignee's rights in the Assigned Trademarks, including, but not limited to, the execution, delivery and filing of all applications, specifications, oaths, assignments, powers-of-attorney, and similar instruments that Assignee deems reasonably necessary to assign and convey to Assignee, or Assignee's successors, assignees, designees, nominees or other legal representatives, all right, title and interest in and to the Assigned Trademarks.

5. Assignors hereby authorize and request the United States Patent and Trademark Office and any corresponding foreign office whose duty it is to issue, certify, or assign registrations or applications for trademarks or service marks to issue, certify or assign as appropriate, the same to Assignee and Assignee's successors, assigns, designees, nominees and other legal representatives in accordance with the terms of this Assignment.

[THE REMAINDER OF THIS PAGE INTENTIONAL LEFT BLANK]

IN WITNESS WHEREOF, this Assignment has been executed as of the day and year first written above.

ASSIGNORS:

THE TOP-FLITE GOLF COMPANY

By:_____
Name:_____

Title:_____

LISCO SPORTS COMPANY, Inc.

By:_____
Name:_____

Title:_____

ASSIGNEE:

CALLAWAY GOLF COMPANY

By:_____
Name:_____

Title:_____

ACKNOWLEDGEMENT BY NOTARY PUBLIC

State of _____

County of _____

On this _____ day of _____, 2003, before me, the undersigned Notary Public, personally appeared _____, personally known to me (or proved to

me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument, and acknowledged to me that he executed the same.

Seal: Signature:_____

Name: , Notary Public

EXHIBIT A

EXHIBIT H-1

CONSULT YOUR LAWYER BEFORE SIGNING THIS INSTRUMENT - THIS INSTRUMENT SHOULD BE USED BY LAWYERS ONLY

THIS INDENTURE, made on

BETWEEN

The Top-Flite Golf Company, Inc. (formerly known as Spalding & Evenflow Companies, Inc.), a Delaware corporation having an address at 422 Meadow Street, Chicopee, MA 01013

PARTY OF THE FIRST PART, AND

PARTY OF THE SECOND PART,

WITNESSTH, that the party of the first part, in consideration of Ten Dollars and other valuable consideration paid by the party of the second part, does hereby grant and release unto the party of the second part, the heirs or successors and assigns of the party of the second part forever.

ALL that certain plot, piece or parcel of land, with the buildings and improvements thereon erected, situate, lying and being in the

County of Fulton, City of Gloversville, State of New York and being more particularly described in Exhibit A attached hereto.

TOGETHER with all right, title and interest, if any, of the party of the first part in and to any streets and roads abutting the above described premises to the center lines thereof; TOGETHER with the appurtenances and all the estate and rights of the party of the first part in and to said premises; TO HAVE AND TO HOLD the premises herein granted unto the party of the second part, the heirs or successors and assigns of the party of the second part forever.

AND the party of the first part convenants that the party of the first part has not done or suffered anything whereby the said premises have been encumbered in any way whatever, except as aforesaid.

AND the party of the first part, in compliance with Section 13 of the Lien Law, covenants that the party of the first part will receive the consideration for this conveyance and will hold the right to receive such consideration as a trust fund to be applied first for the purpose of paying the cost of the improvement and will apply the same first to the payment of the cost of the improvement before using any part of the total of the same for any other purpose. The word "party" shall be construed as if it read "parties" whenever the sense of this indenture so requires.

IN WITNESS WHEREOF, the party of the first part has duly executed this deed the day and year first above written.

IN PRESENCE OF:

ACKNOWLEDGMENT IN NEW YORK STATE (RPL 309-a)

STATE OF NEW YORK, COUNTY OF SS.:

On before me, the undersigned, personally appeared

personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

_____

(Signature and office of individual taking acknowledgment)

ACKNOWLEDGMENT OUTSIDE NEW YORK STATE (RPL 309-D)

STATE OF COUNTY OF SS.:

On before me, the undersigned, personally appeared

personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument, and that such individual made such appearance before the undersigned in

(insert city or political subdivision and state or county or other place acknowledgment taken)

_____

(signature and office of individual taking acknowledgment)

BARGAIN AND SALE DEED
WITH COVENANT AGAINST GRANTOR'S ACTS

TITLE NO._____

TO

ACKNOWLEDGMENT BY SUBSCRIBING WITNESS(ES)

STATE OF SS.:
COUNTY OF

On before me, the undersigned, personally appeared

the subscribing witness(es) to the foregoing instrument, with whom I am personally acquainted, who, being by me duly sworn, did depose and say that he/she/they reside(s) in (if the place of residence is in a city, include the street and street number, if any, thereof);

that he/she/they know(s)

to be the individual(s) described in and who executed the foregoing instrument; that said subscribing witness(es) was(were) present and saw said

execute the same; and that said witness(es) at the same time subscribed his/her/their name(s) as a witness(es) thereto.

([ ] If taken outside New York State insert city or political subdivision and state or country or other place acknowledgment taken. And that said subscribing witness(es) made such appearance before the undersigned in

_____
_____)

_____

(signature and office of individual taking acknowledgment)

SECTION
BLOCK
LOT
COUNTY OR TOWN

RETURN BY MAIL TO:

Zip No.

Reserve this space for use of Recording Office.

EXHIBIT A

PARCEL ONE: All that piece or parcel of land situate, lying and being in the City of Gloversville, County of Fulton and State of New York.

Beginning at a point said point lies N 8 degrees 05'10" E. 762.17 feet and S 62 degrees 13'55" E 299.26 feet from a reference point being an iron pipe marking the most southeast corner of lands now or formerly of Potter (Book 564 Page 981) said point of beginning also lies N 82 degrees 13'55" W 146.79 feet from the curved margin of Corporate Drive; thence N 7 degrees 46'05" E 542.11 feet to a point; thence S 82 degrees 13'55" E 600.00 feet along the south line of lands now or formerly of Asset Investment Services Co. (Book 601 page 96) to an iron pipe; thence S 7 degrees 46'05" W 430.00 feet to an iron pipe; thence N 82 degrees 13'55" W. 171.50 feet along the northerly margin of Corporate Drive to an iron pipe; thence along the margin of Corporate Drive on a curve to the left having a radius of 410.00 feet, a length of 310.27 feet and a chord of S.76 degrees 04'00" W. to a point; thence N. 82 degrees 13'55" W. 146.79 feet to the point or place of beginning. Containing 6.53 acres, more or less.

PARCEL TWO: Beginning at the southwesterly corner of Parcel One above; running thence N 82 degrees 13'55"W. 299.26' to other lands of the Fulton County Industrial Development Agency (conveyed by Gates Mills, Inc.); thence N 08 degrees 05'10" E. 542.12' to a point; thence S 82 degrees 13'55" E. 296.14' to the northwesterly point of Parcel One; thence S 07 degrees 46'05" W 542.11' along the west line of Parcel One to the point and place of beginning. Containing 3.70 acres, more or less.

EXHIBIT H-2

TRANSFER OF LAND — Approved Form T1
Section 45 Transfer of Land Act 1958 — Victorian Land Titles Office
Lodged by:
Name: Allens Arthur Robinson
Phone: (03) 9614 1011
Address: 530 Collins Street, Melbourne
Ref: BTSM:30-520-2043
Customer Code: 0951R

MADE AVAILABLE/CHANGE CONTROL

Land Titles Office Use Only

The transferor at the direction of the directing party (if any) transfers to the transferee the estate and interest specified in the land described for the consideration expressed and subject to the encumbrances affecting the land including any created by dealings lodged for registration before the lodging of this transfer.

Land: (volume and folio reference)
Volume XXXX Folio XXXX

Estate and Interest: (e.g. "all my estate in fee simple")
All its estate in fee simple

Consideration:
The Transferee being entitled to the land under XXXX Bill of Sale between the Transferor and the Transferee dated XXXX.

Transferor: (full name)
Top-Flite Australia Pty Ltd (ACN 004 114 407)

Transferee: (full name and address including postcode)
Callaway XXXX [(ACN XXXX)] of XXXX

Directing Party: (full name)
Nil

Dated:
Execution and attestation:

Approval No. 550026A — ORDER TO REGISTER — STAMP DUTY USE ONLY

Please Register and issue title to

T1

[OFFICE OF TITLES VICTORIA STAMP] Signed Cust. Code:

THE BACK OF THIS FORM MUST NOT BE USED

ANNEXURE PAGE Approved Form A1
Transfer of Land Act 1958 Victorian Land Titles Office

This is page 2 of Approved Form T1 dated between
Top-Flite Australia (ACN 004 114 407) as Transferor and and Calloway (ACN XXXX)
as Transferee

Signatures of the parties

- ---

PANEL HEADING

THE COMMON SEAL of TOP-FLITE
AUSTRALIA PTY LTD was affixed in the
presence of:

_____ _____

Director Signature Director/Secretary Signature

_____ _____

Print Name Print Name

THE COMMON SEAL of CALLOWAY PTY
LTD was affixed in the presence of:

_____ _____

Director Signature Director/Secretary Signature

_____ _____

Print Name Print Name

- ---

Approval No. 550026A

A1

[OFFICE OF TITLES VICTORIA STAMP]

1. If there is insufficient space to accommodate the required information in a panel of the Approved Form insert the words "See Annexure Page 2" (or as the case may be) and enter all the information on the Annexure Page under the appropriate panel heading. THE BACK OF THE ANNEXURE PAGE IS NOT TO BE USED.

2. If multiple copies of a mortgage are lodged, original Annexure Pages must be attached to each.

3. The Annexure Pages must be properly identified and signed by the parties to the Approved Form to which it is annexed.

4. All pages must be attached together by being stapled in the top left corner.

EXHIBIT 10.56

PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT (the "Pledge Agreement") is made and dated as of the 16th day of June, 2003 by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Borrower" and, collectively, with any other person that joins in this Pledge Agreement by execution and delivery of a Joinder Agreement substantially in the form of Exhibit A to this Pledge Agreement, the "Pledgors"), and BANK OF AMERICA, N.A., a national banking association (the "Lender").

RECITALS

A. Pursuant to that certain Credit Agreement dated as of June 16, 2003 by and between the Borrower and the Lender (as amended, extended and replaced from time to time, the "Credit Agreement") the Lender has agreed to extend credit to the Borrower from time to time. All capitalized terms not otherwise defined herein used with the meanings given such terms in the Credit Agreement. All other terms not otherwise defined herein shall have the meanings attributed to such terms in the California Uniform Commercial Code as in effect from time to time.

B. As a condition precedent to the Lender's obligation to extend and to continuing to credit under the Credit Agreement and as security for the payment and performance of the Secured Obligations (as defined in Paragraph 3 below), the Pledgors are required to execute and deliver and/or from time to time join in this Pledge Agreement, all for the purpose of granting a security interest in collateral, all as hereinafter provided.

NOW, THEREFORE, in consideration of the above Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT

1. Grant of Security Interest. Each Pledgor hereby pledges, assigns and grants to the Lender a security interest in the property described in Paragraph 2 below (collectively and severally, the "Collateral") to secure payment and performance of such Pledgor's Secured Obligations.

2. Collateral. The Collateral shall consist of all right, title and interest of each Pledgor, whether now existing or hereafter acquired:

(a) all Pledged Equity Interests, including, without limitation, those Pledged Equity Interests listed on Schedule 1 to this Pledge Agreement;

(b) all Pledged Debt Securities, including, without limitation, those Pledged Debt Securities listed on Schedule 1 to this Pledge Agreement;

(c) all other property that may be delivered to and held by the Lender pursuant to the terms of this Pledge Agreement;

(d) all payments of principal or interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed, in respect of, in exchange for or upon the conversion of the securities referred to in subparagraphs (a) and (b) above;

(e) all rights, powers and privileges with respect to the Collateral referred to in subparagraphs (a) through (d) above; and

(f) all proceeds of the foregoing Collateral.

Upon delivery to the Lender, (a) any stock certificates, promissory notes or other securities now or hereafter included in the Collateral (the "Pledged Securities") shall be accompanied by stock powers duly executed in blank or other instruments of transfer satisfactory to the Lender and by such other endorsement, instruments and documents as the Lender may reasonably request and (b) all other property comprising part of the Collateral shall be accompanied by proper instruments of assignment duly executed by the appropriate Pledgor and such other endorsements, instruments or documents as the Lender may reasonably request. Each Pledgor promises promptly to deliver to the Lender any and all Pledged Securities and any and all certificates or other instruments or documents representing the Collateral. Each delivery of or other change in Pledged Securities shall be accompanied by a schedule describing the securities theretofor and then being pledged hereunder, which schedule shall be attached hereto as Schedule I and made a part hereof. Each schedule so delivered shall supersede any prior schedules so delivered. If any Pledged Securities or other assets of any Pledgor shall, at any time, cease to be Collateral hereunder (including, without limitation, as the result of (i) any Disposition thereof permitted by the Credit Agreement or (ii) the issuer thereof ceasing to be a Direct Material Foreign Subsidiary), the Lender agrees (i) that its security interest therein concurrently will be terminated without further action of the Lender, (ii) promptly on receipt of written notice thereof, to re-deliver to such Pledgor all stock certificates, promissory notes, stock powers, endorsements, instruments and documents delivered to the Lender hereunder in connection with such Collateral, and (iii) to terminate or appropriately amend financing statements filed to perfect the security interest in such Collateral.

3. Obligations. The "Secured Obligations" secured by this Pledge Agreement shall consist of (i) in the case of the Borrower, all Obligations of the Borrower under, and as defined in, the Credit Agreement and each other Loan Document to which it is a party, in each case whether now existing or hereafter arising, voluntary or involuntary, whether or not jointly owed with others, direct or indirect, absolute or contingent, liquidated or unliquidated, and whether or not from time to time decreased or extinguished and later increased, created or incurred, whether now existing or hereafter arising and (ii) in the case of any other Pledgor, all Guaranteed Obligations (as defined in the Guaranty of such Pledgor) under such Guaranty and each other Loan Document to which it is a party, in each case whether now existing or hereafter arising, voluntary or involuntary, whether or not jointly owed with others, direct or indirect, absolute or contingent, liquidated or unliquidated, and whether or not from time to time decreased or

extinguished and later increased, created or incurred, in each case whether now existing or hereafter arising.

4. Representations and Warranties. In addition to all representations and warranties of the Pledgors set forth in the other Loan Documents, which are incorporated herein by this reference, each Pledgor hereby represents and warrants that: (a) the Pledged Equity Interests represent that percentage set forth on Schedule I of the issued and outstanding Equity Interests of the issuer with respect thereto; (b) except for the security interest granted hereunder, such Pledgor (i) is and, except as otherwise permitted by the Credit Agreement, will at all times continue to be the direct owner, beneficially and of record, of the Pledged Securities indicated on Schedule I, (ii) holds the same free and clear of all Liens except those permitted by the Credit Agreement or any other Loan Document; (iii) will not Dispose of or make no assignment, pledge, hypothecation or transfer of, or create or permit to exist any security interest in or other Lien on, the Collateral, other than pursuant hereto, or as permitted by the Credit Agreement or the other Loan Documents, and (iv) will cause any and all Pledged Securities received after the date of this Pledge Agreement, whether for value paid or otherwise, to be forthwith deposited with the Lender and pledged or assigned hereunder; (c) such Pledgor (i) has the power and authority to pledge the Collateral in the manner hereby done or contemplated and (ii) will defend its title or interest thereto or therein against any and all Liens (other than the Liens created by this Pledge Agreement or permitted by the Credit Agreement or the other Loan Documents), however arising, of all Persons whomsoever; (d) no consent of any other Person (including stockholders or creditors of the such Pledgor) and no consent or approval of any Governmental Authority or any securities exchange was or is necessary to the validity or enforceability of the pledge effected hereby, except such consents as have been obtained and are in full force and effect; and (e) by virtue of the execution and delivery by such Pledgor of this Pledge Agreement, when the Pledged Securities, certificates or other documents representing or evidencing the Collateral are delivered to the Lender in accordance with this Pledge Agreement or, if a security interest in the Collateral may not, under applicable law be perfected by possession, then upon the filing of appropriate financing statements, the Lender will obtain a valid and perfected first Lien upon and security interest in such Pledged Securities as security for the payment and performance of the Secured Obligations of such Pledgor; (f) all of the Pledged Equity Interests have been duly authorized and validly issued and are fully paid and nonassessable and are in certificated form; and (g) the Collateral will not be represented by any certificates, notes, securities, documents, or other instruments other than those delivered hereunder.

5. Registration in Nominee Name; Denominations. The Lender shall have the right following an Event of Default which is continuing (in its sole and absolute discretion) to hold the Pledged Securities in its own name as pledgee, the name of its nominee (as pledge or as sub-agent) or the name of the Pledgor granting a security interest therein, endorsed or assigned in blank or in favor of the Lender. Each Pledgor will promptly give to the Lender copies of any notices or other communication received by it from any Governmental Authority with respect to the Pledged Securities registered in the name of such Pledgor. The Lender shall at all times following an Event of Default which is continuing have the right to exchange the certificates representing Pledged

Securities for certificates of smaller or larger denominations for any purpose consistent with this Pledge Agreement. Each Pledgor hereby grants to the Lender an exclusive, irrevocable power of attorney, with full power and authority in the place and stead of such Pledgor to take all such action permitted under this Paragraph 5. Each Pledgor agrees to reimburse the Lender upon demand for any costs and expenses, including, without limitation, attorneys' fees, the Lender may incur while acting as such Pledgor's attorney-in-fact hereunder, all of which costs and expenses are included in the Secured Obligations of such Pledgor secured hereby. It is further agreed and understood between the parties hereto that such care as the Lender gives to the safekeeping of its own property of like kind shall constitute reasonable care of the Collateral when in the Lender's possession; provided, however, that the Lender shall not be required to make any presentment, demand or protest, or give any notice and need not take any action to preserve any rights against any prior party or any other Person in connection with the Secured Obligations or with respect to the Collateral.

6. Administration of the Pledged Securities.

(a) Until there shall have occurred and be continuing an Event of Default, each Pledgor shall be entitled to vote or consent with respect to the Pledged Securities in any manner not inconsistent with this Pledge Agreement or any document or instrument delivered or to be delivered pursuant to or in connection with any thereof; provided, however, that no Pledgor will be entitled to exercise any such right if the result thereof could materially and adversely affect the rights inuring to a holder of the Pledged Securities or the rights and remedies of the Lender under this Pledge Agreement or the Credit Agreement or the Loan Documents or the ability of the Lender to exercise the same. If there shall have occurred and be continuing an Event of Default and the Lender shall have notified a Pledgor that the Lender desires to exercise its proxy rights with respect to all or a portion of the Pledged Securities, such Pledgor hereby grants to the Lender an irrevocable proxy for the Pledged Securities of such Pledgor pursuant to which proxy the Lender shall be entitled to vote or consent, in its discretion, and in such event each such Pledgor agrees to deliver to the Lender such further evidence of the grant of such proxy as the Lender may request. Upon the occurrence and during the continuance of an Event of Default, all rights of each Pledgor to exercise the voting and consensual rights and powers it is entitled to exercise pursuant to this Pledge Agreement shall cease, and all such rights shall thereupon become vested in the Lender, which shall have the sole and exclusive right and authority to exercise such voting and consensual rights and powers.

(b) In the event that at any time or from time to time after the date hereof, any Pledgor, as record and beneficial owner of Pledged Securities, shall receive or shall become entitled to receive, any dividend or any other distribution whether in securities or property by way of stock split, spin-off, split-up or reclassification, combination of shares or the like, or in case of any reorganization, consolidation or merger, or any Pledgor, as record and beneficial owner of Pledged Securities, shall thereby be entitled to receive securities or property in respect of such Pledged Securities, then and in each such case, each such Pledgor shall deliver to the Lender and the Lender shall be entitled to receive and retain all such securities or property as part of the Pledged

Securities as security for the payment and performance of such Pledgor's Secured Obligations; provided, however, that until an Event of Default shall have occurred and be continuing, each Pledgor shall be entitled to receive, retain, and use any cash dividends, interest, principal payments and other distributions paid to it on account of the Pledged Securities to the extent that such payments or other distributions are permitted by, and otherwise paid in accordance with, the terms and conditions of the Credit Agreement and the other Loan Documents.

(c) Upon the occurrence of an Event of Default, all rights of the Pledgors to dividends, distributions, interest or principal that any Pledgor is authorized to receive pursuant to this Pledge Agreement shall cease, and all such rights shall thereupon become vested in the Lender, which shall have the sole and exclusive right and authority to receive and retain such dividends, distributions, interest or principal. All dividends, distributions, interest or principal received by any Pledgor contrary to the provisions of this Pledge Agreement shall be held in trust for the benefit of the Lender, shall be segregated from other property or funds of such Pledgor and shall forthwith be delivered to the Lender upon demand in the same form as so received (with any necessary endorsement). Any and all money and other property paid over to or received by the Lender pursuant to the provisions of this subparagraph (c) shall be retained by the Lender in an account to be established by the Lender upon receipt of such money or other property and shall constitute Collateral under this Pledge Agreement to be applied in accordance herewith.

(d) Upon the occurrence of an Event of Default, the Lender is authorized to sell the Pledged Securities and, at any such sale of any of the Pledged Securities, if it deems it advisable to do so, to restrict the prospective bidders or purchasers to persons or entities who (1) will represent and agree that they are purchasing for their own account, for investment, and not with a view to the distribution or sale of any of the Pledged Securities; and (2) satisfy the offeree and purchaser requirements for a valid private placement transaction under Section 4(2) of the Securities Act of 1933, as amended (the "Act"), and under Securities and Exchange Commission Release Nos. 33-6383; 34-18524; 35-22407; 39-700; IC-12264; AS-306, or under any similar statute, rule or regulation. Each Pledgor agrees that disposition of the Pledged Securities pursuant to any private sale made as provided above may be at prices and on other terms less favorable than if the Pledged Securities were sold at public sale, and that the Lender has no obligation to delay the sale of any Pledged Securities for public sale under the Act. Each Pledgor agrees that a private sale or sales made under the foregoing circumstances shall be deemed to have been made in a commercially reasonable manner. In the event that the Lender elects to sell the Pledged Securities of such Pledgor, or part of them, and there is a public market for such Pledged Securities, in a public sale such Pledgor shall use its best efforts to register and qualify its Pledged Securities, or applicable part thereof, under the Act and all state blue sky or securities laws required by the proposed terms of sale and all expenses thereof shall be payable by such Pledgor, including, but not limited to, all costs of (i) registration or qualification of, under the Act or any state blue sky or securities laws or pursuant to any applicable rule or regulation issued pursuant thereto, any Pledged Securities, and (ii) sale of such Pledged Securities, including, but not limited

to, brokers' or underwriters' commissions, fees or discounts, accounting and legal fees, costs of printing and other expenses of transfer and sale.

(e) If any consent, approval or authorization of any state, municipal or other governmental department, agency or authority should be necessary to effectuate any sale or other disposition of the Pledged Securities of a Pledgor, or any part thereof, such Pledgor will execute such applications and other instruments as may be reasonably required in connection with securing any such consent, approval or authorization, and will otherwise use its commercially reasonable efforts to secure the same.

(f) Nothing contained in this Paragraph 6 shall be deemed to limit the other obligations of any Pledgor contained in the Credit Agreement, the Guaranties, this Pledge Agreement, or the other Loan Documents or the rights of the Lender hereunder or thereunder.

7. Remedies.

(a) Upon the occurrence of an Event of Default, the Lender may, without notice to or demand on any Pledgor and in addition to all rights and remedies available to the Lender with respect to the Secured Obligations, at law, in equity or otherwise, do any one or more of the following:

(1) Foreclose or otherwise enforce the Lender's security interest in Collateral of such Pledgor in any manner permitted by law or provided for in this Pledge Agreement.

(2) Sell, lease, license or otherwise dispose of any Collateral of such Pledgor at one or more public or private sales at the Lender's place of business or any other place or places, including, without limitation, any broker's board or securities exchange, whether or not such Collateral is present at the place of sale, for cash or credit or future delivery, on such terms and in such manner as the Lender may determine.

(3) Recover from such Pledgor all costs and expenses, including, without limitation, reasonable attorneys' fees (including the allocated cost of internal counsel), incurred or paid by the Lender in exercising any right, power or remedy provided by this Pledge Agreement.

(4) In connection with the disposition of any Collateral of such Pledgor, disclaim any warranty relating to title, possession or quiet enjoyment.

(b) Unless the Collateral of a Pledgor threatens to decline speedily in value or is of a type customarily sold on a recognized market, such Pledgor shall be given ten (10) Business Days' prior notice of the time and place of any public sale or of the time after which any private sale or other intended disposition of such Collateral is to be made pursuant to this Pledge Agreement, which notice each Pledgor hereby agrees shall be deemed reasonable notice thereof.

(c) Upon any sale or other Disposition pursuant to this Pledge Agreement, the Lender shall have the right to deliver, assign and transfer to the purchaser thereof the Collateral or portion thereof so sold or Disposed of. Each purchaser at any such sale or other disposition (including the Lender) shall hold the Collateral free from any claim or right of whatever kind, including any equity or right of redemption of any Pledgor, and each Pledgor specifically waives (to the extent permitted by law) all rights of redemption, stay or appraisal which it has or may have under any rule of law or statute now existing or hereafter adopted.

(d) Any deficiency with respect to the Secured Obligations of a Pledgor which exists after the Disposition or liquidation of the Collateral of such Pledgor shall be a continuing liability of such Pledgor to the Lender and shall be immediately paid by such Pledgor to the Lender.

8. Application of Non-Cash Proceeds. Notwithstanding anything else contained in this Pledge Agreement, if any non-cash proceeds are received in connection with any sale or Disposition of any Collateral, the Lender shall not apply such non-cash proceeds to the Secured Obligations unless and until such proceeds are converted to cash; provided, however, that if such non-cash proceeds are not expected on the date of receipt thereof to be converted to cash within one year after such date, the Lender shall use commercially reasonable efforts to convert such non-cash proceeds to cash within such one year period.

9. Waiver of Hearing. Each Pledgor expressly waives to the extent permitted under applicable law any constitutional or other right to a judicial hearing prior to the time the Lender takes possession or Disposes of the Collateral upon the occurrence of an Event of Default.

10. Cumulative Rights. The rights, powers and remedies of the Lender under this Pledge Agreement shall be in addition to all rights, powers and remedies given to the Lender by virtue of any statute or rule of law, the Credit Agreement, the Guaranties, any Loan Document or any other agreement, all of which rights, powers and remedies shall be cumulative and may be exercised successively or concurrently without impairing the Lender's security interest in the Collateral.

11. Waiver. Any forbearance or failure or delay by the Lender in exercising any right, power or remedy shall not preclude the further exercise thereof, and every right, power or remedy of the Lender shall continue in full force and effect until such right, power or remedy is specifically waived in a writing executed by the Lender. Each Pledgor waives any right to require the Lender to proceed against any person or to exhaust any Collateral or to pursue any remedy in the Lender's power.

12. Setoff. Each Pledgor agrees that the Lender may exercise its rights of setoff with respect to the Secured Obligations in the same manner as if the Secured Obligations of such Pledgor were unsecured.

13. Financing Statements. Each Pledgor hereby consents to, authorizes and instructs the Lender to file financing statements with respect to the Collateral in all locations deemed appropriate by the Lender from time to time.

14. Entire Agreement. This Pledge Agreement and the other Loan Documents embody the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings relating to the subject matter hereof and thereof.

15. Survival. All representations, warranties, covenants and agreements contained herein and in the other Loan Documents of each Pledgor shall survive the termination of this Agreement and shall be effective until the Secured Obligations of all Pledgors are paid and performed in full or longer as expressly provided herein.

16. Notices. All notices shall be given in accordance with the Credit Agreement, which, in the case of Pledgors other than the Borrower, shall be addressed to such Pledgor care of the Borrower at the address indicated in the Credit Agreement.

17. Governing Law. This Pledge Agreement shall be governed by and construed in accordance with the laws of the State of California without giving effect to its choice of law rules.

18. Counterparts. This Pledge Agreement may be executed in any number of counterparts, all of which together shall constitute one agreement.

19. Severability. The illegality or unenforceability of any provision of this Pledge Agreement or any instrument or agreement required hereunder or thereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions hereof or thereof.

[Signature Pages Following}

EXECUTED as of the day and year first above written.

CALLAWAY GOLF COMPANY

By: /s/ Ronald A. Drapeau
Name: Ronald A. Drapeau
Title: President and CEO

BANK OF AMERICA, N.A.

By: /s/ Susan J. Pepping
Name: Susan J. Pepping
Title: Senior Vice President

SCHEDULE I
(TO PLEDGE AGREEMENT)

PLEDGED SECURITIES

1. PLEDGED EQUITY INTERESTS

PLEDGOR	ISSUER	NO. OF EQUITY INTERESTS PLEDGED	PERCENTAGE OF TOTAL
Borrower	Callaway Golf Kabushiki Kaisha	Certificates representing 650 Shares	65%
Borrower	Callaway Golf Europe Limited	Certificate representing 2,066,918 Shares	65%

2. PLEDGED DEBT SECURITIES

None

EXHIBIT A
(TO PLEDGE AGREEMENT)

JOINDER AGREEMENT

THIS JOINDER AGREEMENT (this "Agreement") is made and dated as of the ____ day of ___, 200_ by and between _____, a _____ (the "Joining Pledgor").

WHEREAS, Callaway Golf Company (the "Borrower") and Bank of America, NA (the "Lender") have entered into a Credit Agreement dated as of June 16, 2003 (as amended, modified, or waived, the "Credit Agreement") pursuant to which the Lender has agreed to extend credit to the Borrower on the terms and conditions contained thereon;

WHEREAS, the Borrower and the Lender have executed a Pledge Agreement (as such term and all other capitalized terms used, but not otherwise defined, are defined in the Credit Agreement) pursuant to which the Borrower has, and certain other Pledgors may have, granted to the Lender a security interest in the Collateral as defined therein;

WHEREAS, the Joining Pledgor is or concurrently herewith is becoming a Guarantor under the Credit Agreement and will acquire an interest in Collateral and, pursuant to the Credit Agreement, is required to join in the Pledge Agreement;

NOW, THEREFORE, in consideration of the above Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Joining Pledgor hereby (a) joins in the Pledge Agreement as though a party thereto ab initio, (b) grants to the Lender a security interest in all right, title and interest of the Joining Pledgor in the Collateral of the Joining Pledgor, whether now owned or hereafter acquired, (c) delivers to the Lender a new Schedule 1 to the Pledge Agreement to the extent required by the Pledge Agreement on account of Pledged Securities of the Joining Pledgor and (d) agrees to deliver to the Lender such other agreements and documents as the Lender may reasonably required to effectuate this joinder and to realize for the Lender the benefits of the Collateral intended to be granted pursuant to the Pledge Agreement.

_____, a _____

By:_____
Name:_____
Title:_____

EXHIBIT 10.57

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT is made as of the 21st day of April 2003, by and between Callaway Golf Company, a Delaware corporation (the "Company"), and Samuel H. Armacost ("Indemnitee"), a director of the Company.

WHEREAS, the Company and Indemnitee recognize the increasing difficulty in obtaining liability insurance covering directors, the significant increases in the cost of such insurance and the general reductions in the coverage of such insurance;

WHEREAS, although the Company currently has directors liability insurance, the coverage of such insurance is such that many claims which may be brought against Indemnitee may not be covered, or may not be fully covered, and the Company may be unable to maintain such insurance;

WHEREAS, the Company and the Indemnitee further recognize the substantial increase in corporate litigation subjecting directors to expensive litigation risks at the same time that liability insurance has been severely limited;

WHEREAS, the current protection available may not be adequate given the present circumstances, and Indemnitee may not be willing to serve as a director without adequate protection;

WHEREAS, the Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve as directors of the Company and to indemnify its directors so as to provide them with the maximum protection permitted by law;

NOW, THEREFORE, the Company and Indemnitee hereby agree as follows:

1. DEFINITIONS. The following terms, as used herein, have the following meaning:

1.1 Affiliate. "Affiliate" means, (i) with respect to any corporation, any officer, director or 10% or more shareholder of such corporation, or (ii) with respect to any individual, any partner or immediate family member of such individual or the estate of such individual, or (iii) with respect to any partnership, trust or joint venture, any partner, co-venturer or trustee of such partnership, trust of joint venture, or any beneficiary or owner having 10% or more interest in the equity, property or profits of such partnership, trust or joint venture, or (iv) with respect to any Person, any other Person which, directly or indirectly, controls, is controlled by, or is under common control with such Person or any Affiliate of such Person.

1.2 Agreement. "Agreement" shall mean this Indemnification Agreement, as the same may be amended from time to time hereafter.

1.3 DGCL. "DGCL" shall mean the Delaware General Corporation Law, as amended.

1.4 Person. "Person" shall mean any individual, partnership, corporation, joint venture, trust, estate, or other entity.

1.5 Subsidiary. "Subsidiary" shall mean any corporation of which the Company owns, directly or indirectly, through one or more subsidiaries, securities having more than 50% of the voting power of such corporation.

2. INDEMNIFICATION

2.1 Third Party Proceedings. The Company shall indemnify Indemnitee if Indemnitee is or was a party or witness or other participant in, or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than action by or in the right of the Company) by reason of the fact that Indemnitee is or was a director of the Company or any subsidiary of the Company, by reason of any action or inaction on the part of Indemnitee while a director of the Company or any Subsidiary, and/or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against all expense, liability and loss (including attorneys' fees), judgments, fines and amounts paid in settlement (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld) actually and reasonably incurred by Indemnitee in connection with such action, suit or proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful and provided, further, that the Company has determined that such indemnification is otherwise permitted by applicable law.

The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in the best interests of the Company or that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

2.2 Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee if Indemnitee was or is a party or a witness or other participant in or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company or any Subsidiary to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director of the Company or any Subsidiary, by reason of any action or inaction on the part of

Indemnitee while a director of the Company or a Subsidiary or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against all expense, liability and loss (including attorneys' fees) and amounts paid in settlement (if such settlement is court-approved) actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such action or suit if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and its shareholders and provided, further, that the Company has determined that such indemnification is otherwise permitted by applicable law. No indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company in the performance of Indemnitee's duties to the Company and its shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine.

2.3 Mandatory Payment of Expenses. To the extent that Indemnitee has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 2.1 or 2.2 or the defense of any claim, issue or matter therein, Indemnitee shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by Indemnitee in connection therewith.

2.4 Enforcing the Agreement. If Indemnitee properly makes a claim for indemnification or an advance of expenses which is payable pursuant to the terms of this Agreement, and that claim is not paid by the Company, or on its behalf, within ninety days after a written claim has been received by the Company, the Indemnitee may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim and if successful in whole or in part, the Indemnitee shall be entitled to be paid also all expenses actually and reasonably incurred in connection with prosecuting such claim.

2.5 Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

3. EXPENSES; INDEMNIFICATION PROCEDURE

3.1 Advancement of Expenses. The Company shall advance all expenses incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any civil or criminal action, suit or proceeding referenced in Section 2.1 or 2.2 hereof. Indemnitee hereby undertakes to repay such amounts advanced only if, and to the extent that, it shall ultimately be determined that Indemnitee

is not entitled to be indemnified by the Company as authorized hereby or that such indemnification is not otherwise permitted by applicable law. The advances to be made hereunder shall be paid by the Company to Indemnitee within thirty (30) days following delivery of a written request therefor or by Indemnitee to the Company.

3.2 Determination of Conduct. Any indemnification (unless ordered by a court) shall be made by the Company only as authorized in the specified case upon a determination that indemnification of Indemnitee is proper under the circumstances because Indemnitee has met the applicable standard of conduct set forth in Sections 2.1 or 2.2 of this Agreement. Such determination shall be made by any of the following: (1) the Board of Directors (or by an executive committee thereof) by a majority vote of directors (or committee members) who are not parties to such action, suit or proceeding, even though less than a quorum, (2) if there are no such disinterested directors, or if such disinterested directors so direct, by independent legal counsel in a written opinion, (3) by the shareholders, with the shares owned by Indemnitee not being entitled to vote thereon, or (4) the court in which such proceeding is or was pending upon application made by the Company or Indemnitee or the attorney or other person rendering services in connection with the defense, whether or not such application by Indemnitee, the attorney or the other person is opposed by the Company.

3.3 Notice/Cooperation by Indemnitee. Indemnitee shall, as a condition precedent to Indemnitee's right to be indemnified under this Agreement, give the Company notice in writing as soon as practicable of any claim made against Indemnitee for which indemnification will or could be sought under this Agreement. Notice to the Company shall be given in the manner set forth in Section 10.3 hereof and to the address stated therein, or such other address as the Company shall designate in writing to Indemnitee. In addition, Indemnitee shall give the Company such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.

3.4 Notice to Insurers. If, at the time of the receipt of a notice of a claim pursuant to Section 3.3 hereof, the Company has director liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable actions to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

3.5 Selection of Counsel. In the event the Company shall be obligated under Section 3.1 hereof to pay the expenses of any proceeding against Indemnitee, the Company shall be entitled to assume the defense of such proceeding, with counsel approved by Indemnitee, upon the delivery to Indemnitee of written notice of its election so to do. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same proceeding, provided that (a) Indemnitee shall have the right to

employ separate counsel in any such proceeding at Indemnitee's expense; and (b) if (i) the employment of counsel by Indemnitee has been previously authorized by the Company, (ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense, or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such proceeding, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Company (subject to the provisions of this Agreement).

4. ADDITIONAL INDEMNIFICATION RIGHTS; NON-EXCLUSIVITY

4.1 Application. The provisions of this Agreement shall be deemed applicable to all actual or alleged actions or omissions by Indemnitee during any and all periods of time that Indemnitee was, is, or shall be serving as a director of the Company or a Subsidiary.

4.2 Scope. The Company hereby agrees to indemnify Indemnitee to the fullest extent permitted by law (except as set forth in Section 8 hereof), notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any changes, after the date of this Agreement, in any applicable law, statute, or rule which expands the right of a Delaware corporation to indemnify a member of its board of directors, such changes shall be, ipso facto, within the purview of Indemnitee's rights and the Company's obligations under this Agreement. In the event of any change in any applicable law, statute, or rule which narrows the right of a Delaware corporation to indemnify a member of its board of directors, such changes, except to the extent otherwise required by such law, statute or rule to be applied to this Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

4.3 Non-Exclusivity. The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which an Indemnitee may be entitled under the Company's Certificate of Incorporation, its Bylaws, any agreement, any vote of shareholders or disinterested directors, the DGCL, or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while holding such office. The indemnification provided under this Agreement shall continue as to Indemnitee for an action taken or not taken while serving in an indemnified capacity even though he may have ceased to serve in such capacity at the time of any action, suit or other covered proceeding.

5. PARTIAL INDEMNIFICATION

If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the expenses, judgments, fines or penalties actually or reasonably incurred by Indemnitee in the investigation, defense, appeal or settlement of any civil or criminal action, suit or proceedings but not, however,

for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for that portion to which Indemnitee is entitled.

6. MUTUAL ACKNOWLEDGMENT

Both the Company and Indemnitee acknowledge that in certain instances, federal law or public policy may override applicable state law and prohibit the Company from indemnifying its directors under this Agreement or otherwise. For example, the Company and Indemnitee acknowledge that the Securities and Exchange Commission (the "SEC") has taken the position that indemnification is not permissible for liabilities arising under certain federal securities laws, and federal legislation prohibits indemnification for certain ERISA violations. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the SEC to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnitee.

7. LIABILITY INSURANCE

The Company shall, from time to time, make the good faith determination whether or not it is practicable for the Company to obtain and maintain a policy or policies of insurance with reputable, insurance companies providing the directors with coverage for losses from wrongful acts, or to ensure the Company's performance of its indemnification obligations under this Agreement. Among other considerations, the Company will weigh the costs of obtaining such insurance coverage against the protection afforded by such coverage. In all such policies of liability insurance, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's directors. Notwithstanding the foregoing, the Company shall have no obligation, to obtain or maintain such insurance if the Company determines in good faith that such insurance is not reasonably available, if the premium costs for such insurance are disproportionate to the amount of coverage provided, if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or if Indemnitee is covered by similar insurance maintained by a parent or Subsidiary of the Company.

8. SEVERABILITY

Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 8. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the

balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

9. EXCEPTIONS

9.1 Exceptions to Company's Obligations. Any other provision to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement for the following:

(a) Claims Initiated by Indemnitee. To indemnify or advance expenses to Indemnitee with respect to proceedings or claims initiated or brought voluntarily by Indemnitee and not by way of defense, unless said proceedings or claims were authorized by the board of directors of the Company.

(b) Improper Personal Benefit. To indemnify Indemnitee against liability for any transactions from which Indemnitee, or any Affiliate of Indemnitee, derived an improper personal benefit, including, but not limited to, self-dealing or usurpation of a corporate opportunity.

(c) Dishonesty. To indemnify Indemnitee if a judgment or other final adjudication adverse to Indemnitee established that Indemnitee committed acts of active and deliberate dishonesty, with actual dishonest purpose and intent, which acts were material to the cause of action so adjudicated.

(d) Insured Claims; Paid Claims. To indemnify Indemnitee for expenses or liabilities of any type whatsoever (including but not limited to, judgments, fines, ERISA excise taxes or penalties, and amounts paid in settlement) which have been paid directly to Indemnitee (i) by an insurance carrier under a policy of liability insurance maintained by the Company, or (ii) otherwise by any other means.

(e) Claims Under Section 16(b). To indemnify Indemnitee for an accounting of profits in fact realized from the purchase and sale of securities within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute.

10. MISCELLANEOUS

10.1 Construction of Certain Phrases.

(a) For purposes of this Agreement, references to the "Company" shall include any resulting or surviving corporation in any merger or consolidation in which the Company (as then constituted) is not the resulting or surviving corporation so that Indemnitee will continue to have the full benefits of this Agreement.

(b) For purposes of this Agreement, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on Indemnitee with respect to an employee benefit plan; and references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company which impose duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or beneficiaries; and if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner "reasonably believed to be in the best interests of the Company and its shareholders" as referred to in this Agreement.

10.2 Successors and Assigns. This Agreement shall be binding upon the Company and its successors and assigns, and shall inure to the benefit of Indemnitee and Indemnitee's estate, heirs, legal representatives and assigns. Notwithstanding the foregoing, the Indemnitee shall have no right or power to voluntarily assign or transfer any rights granted to Indemnitee, or obligations imposed upon the Company, by or pursuant to this Agreement. Further, the rights of the Indemnitee hereunder shall in no event accrue to the benefit of, or be enforceable by, any judgment creditor or other involuntary transferee of the Indemnitee.

10.3 Notice. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed duly given (i) if mailed by domestic certified or registered mail with postage prepaid, properly addressed to the parties at the addresses set forth below, or to such other address as may be furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be, on the third business day after the date postmarked, or (ii) otherwise notice shall be deemed received when such notice is actually received by the party to whom it is directed.

If to Indemnitee: Samuel H. Armacost
Chairman
SRI International
333 Ravenswood Avenue
Menlo Park, CA 94025-3493

If to Company: Callaway Golf Company
2180 Rutherford Road
Carlsbad, CA 92008
Attention: Chief Legal Officer

10.4 Consent to Jurisdiction. The Company and Indemnitee each hereby irrevocably consent to the jurisdiction of the courts of the State of California for all purposes in connection with any action or proceeding which arises out of or related

to this Agreement and agree that any action instituted under this Agreement shall be brought only in the state courts of the State of California.

10.5 Choice of Law. This Agreement shall be governed by and its provisions construed in accordance with the internal laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within Delaware, and without regard to choice of law principles.

10.6 IRREVOCABLE ARBITRATION OF DISPUTES.

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

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

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

(d) THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE PROCEDURAL RULES STATED IN THE COMMERCIAL RULES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA") IN SAN DIEGO. THE ARBITRATION SHALL BE CONDUCTED IN SAN DIEGO BY A FORMER OR RETIRED JUDGE OR ATTORNEY WITH AT LEAST 10 YEARS EXPERIENCE IN COMMERCIAL-RELATED DISPUTES, OR A NON-ATTORNEY WITH LIKE EXPERIENCE IN THE AREA OF DISPUTE, WHO SHALL HAVE THE POWER TO HEAR MOTIONS, CONTROL DISCOVERY, CONDUCT HEARINGS AND OTHERWISE DO ALL THAT IS NECESSARY TO RESOLVE THE MATTER. THE PARTIES MUST MUTUALLY AGREE ON THE ARBITRATOR. IF THE PARTIES CANNOT AGREE ON THE ARBITRATOR AFTER THEIR BEST EFFORTS, AN ARBITRATOR FROM THE AMERICAN ARBITRATION ASSOCIATION WILL BE SELECTED PURSUANT TO THE AMERICAN ARBITRATION ASSOCIATION

NATIONAL RULES FOR RESOLUTION OF COMMERCIAL/BUSINESS DISPUTES. THE COMPANY SHALL PAY THE COSTS OF THE ARBITRATOR'S FEES.

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

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

(g) THE PREVAILING PARTY SHALL BE ENTITLED TO AN AWARD BY THE ARBITRATOR OF REASONABLE ATTORNEYS' FEES AND OTHER COSTS REASONABLY INCURRED IN CONNECTION WITH THE ARBITRATION.

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

I HAVE READ SECTION 10.6 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

/s/ SHA	/s/ RAD
- ----------	----------
(INDEMNITEE'S INITIALS)	(COMPANY'S INITIALS)

10.7 Entire Agreement. The provisions of this Agreement contain the entire agreement between the parties. This Agreement may not be released, discharged, abandoned, changed or modified in any manner except by an instrument in writing signed by the parties.

10.8 Counterparts. This Agreement may be executed in counterparts, each of which shall constitute an original and all of which together shall constitute one and the same instrument.

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

CALLAWAY GOLF COMPANY

/s/ Ronald A. Drapeau

Ronald A. Drapeau
Chairman, President and
Chief Executive Officer

INDEMNITEE

/s/ Samuel H. Armacost

Samuel H. Armacost

EXHIBIT 10.58

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT is made as of the 21st day of April 2003, by and between Callaway Golf Company, a Delaware corporation (the "Company"), and John C. Cushman, III ("Indemnitee"), a director of the Company.

WHEREAS, the Company and Indemnitee recognize the increasing difficulty in obtaining liability insurance covering directors, the significant increases in the cost of such insurance and the general reductions in the coverage of such insurance;

WHEREAS, although the Company currently has directors liability insurance, the coverage of such insurance is such that many claims which may be brought against Indemnitee may not be covered, or may not be fully covered, and the Company may be unable to maintain such insurance;

WHEREAS, the Company and the Indemnitee further recognize the substantial increase in corporate litigation subjecting directors to expensive litigation risks at the same time that liability insurance has been severely limited;

WHEREAS, the current protection available may not be adequate given the present circumstances, and Indemnitee may not be willing to serve as a director without adequate protection;

WHEREAS, the Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve as directors of the Company and to indemnify its directors so as to provide them with the maximum protection permitted by law;

NOW, THEREFORE, the Company and Indemnitee hereby agree as follows:

1. DEFINITIONS. The following terms, as used herein, have the following meaning:

1.1 Affiliate. "Affiliate" means, (i) with respect to any corporation, any officer, director or 10% or more shareholder of such corporation, or (ii) with respect to any individual, any partner or immediate family member of such individual or the estate of such individual, or (iii) with respect to any partnership, trust or joint venture, any partner, co-venturer or trustee of such partnership, trust of joint venture, or any beneficiary or owner having 10% or more interest in the equity, property or profits of such partnership, trust or joint venture, or (iv) with respect to any Person, any other Person which, directly or indirectly, controls, is controlled by, or is under common control with such Person or any Affiliate of such Person.

1.2 Agreement. "Agreement" shall mean this Indemnification Agreement, as the same may be amended from time to time hereafter.

1.3 DGCL. "DGCL" shall mean the Delaware General Corporation Law, as amended.

1.4 Person. "Person" shall mean any individual, partnership, corporation, joint venture, trust, estate, or other entity.

1.5 Subsidiary. "Subsidiary" shall mean any corporation of which the Company owns, directly or indirectly, through one or more subsidiaries, securities having more than 50% of the voting power of such corporation.

2. INDEMNIFICATION

2.1 Third Party Proceedings. The Company shall indemnify Indemnitee if Indemnitee is or was a party or witness or other participant in, or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than action by or in the right of the Company) by reason of the fact that Indemnitee is or was a director of the Company or any subsidiary of the Company, by reason of any action or inaction on the part of Indemnitee while a director of the Company or any Subsidiary, and/or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against all expense, liability and loss (including attorneys' fees), judgments, fines and amounts paid in settlement (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld) actually and reasonably incurred by Indemnitee in connection with such action, suit or proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful and provided, further, that the Company has determined that such indemnification is otherwise permitted by applicable law.

The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in the best interests of the Company or that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

2.2 Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee if Indemnitee was or is a party or a witness or other participant in or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company or any Subsidiary to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director of the Company or any Subsidiary, by reason of any action or inaction on the part of

Indemnitee while a director of the Company or a Subsidiary or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against all expense, liability and loss (including attorneys' fees) and amounts paid in settlement (if such settlement is court-approved) actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such action or suit if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and its shareholders and provided, further, that the Company has determined that such indemnification is otherwise permitted by applicable law. No indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company in the performance of Indemnitee's duties to the Company and its shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine.

2.3 Mandatory Payment of Expenses. To the extent that Indemnitee has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 2.1 or 2.2 or the defense of any claim, issue or matter therein, Indemnitee shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by Indemnitee in connection therewith.

2.4 Enforcing the Agreement. If Indemnitee properly makes a claim for indemnification or an advance of expenses which is payable pursuant to the terms of this Agreement, and that claim is not paid by the Company, or on its behalf, within ninety days after a written claim has been received by the Company, the Indemnitee may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim and if successful in whole or in part, the Indemnitee shall be entitled to be paid also all expenses actually and reasonably incurred in connection with prosecuting such claim.

2.5 Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

3. EXPENSES; INDEMNIFICATION PROCEDURE

3.1 Advancement of Expenses. The Company shall advance all expenses incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any civil or criminal action, suit or proceeding referenced in Section 2.1 or 2.2 hereof. Indemnitee hereby undertakes to repay such amounts advanced only if, and to the extent that, it shall ultimately be determined that Indemnitee

is not entitled to be indemnified by the Company as authorized hereby or that such indemnification is not otherwise permitted by applicable law. The advances to be made hereunder shall be paid by the Company to Indemnitee within thirty (30) days following delivery of a written request therefor or by Indemnitee to the Company.

3.2 Determination of Conduct. Any indemnification (unless ordered by a court) shall be made by the Company only as authorized in the specified case upon a determination that indemnification of Indemnitee is proper under the circumstances because Indemnitee has met the applicable standard of conduct set forth in Sections 2.1 or 2.2 of this Agreement. Such determination shall be made by any of the following: (1) the Board of Directors (or by an executive committee thereof) by a majority vote of directors (or committee members) who are not parties to such action, suit or proceeding, even though less than a quorum, (2) if there are no such disinterested directors, or if such disinterested directors so direct, by independent legal counsel in a written opinion, (3) by the shareholders, with the shares owned by Indemnitee not being entitled to vote thereon, or (4) the court in which such proceeding is or was pending upon application made by the Company or Indemnitee or the attorney or other person rendering services in connection with the defense, whether or not such application by Indemnitee, the attorney or the other person is opposed by the Company.

3.3 Notice/Cooperation by Indemnitee. Indemnitee shall, as a condition precedent to Indemnitee's right to be indemnified under this Agreement, give the Company notice in writing as soon as practicable of any claim made against Indemnitee for which indemnification will or could be sought under this Agreement. Notice to the Company shall be given in the manner set forth in Section 10.3 hereof and to the address stated therein, or such other address as the Company shall designate in writing to Indemnitee. In addition, Indemnitee shall give the Company such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.

3.4 Notice to Insurers. If, at the time of the receipt of a notice of a claim pursuant to Section 3.3 hereof, the Company has director liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable actions to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

3.5 Selection of Counsel. In the event the Company shall be obligated under Section 3.1 hereof to pay the expenses of any proceeding against Indemnitee, the Company shall be entitled to assume the defense of such proceeding, with counsel approved by Indemnitee, upon the delivery to Indemnitee of written notice of its election so to do. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same proceeding, provided that (a) Indemnitee shall have the right to

employ separate counsel in any such proceeding at Indemnitee's expense; and (b) if (i) the employment of counsel by Indemnitee has been previously authorized by the Company, (ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense, or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such proceeding, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Company (subject to the provisions of this Agreement).

4. ADDITIONAL INDEMNIFICATION RIGHTS; NON-EXCLUSIVITY

4.1 Application. The provisions of this Agreement shall be deemed applicable to all actual or alleged actions or omissions by Indemnitee during any and all periods of time that Indemnitee was, is, or shall be serving as a director of the Company or a Subsidiary.

4.2 Scope. The Company hereby agrees to indemnify Indemnitee to the fullest extent permitted by law (except as set forth in Section 8 hereof), notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any changes, after the date of this Agreement, in any applicable law, statute, or rule which expands the right of a Delaware corporation to indemnify a member of its board of directors, such changes shall be, ipso facto, within the purview of Indemnitee's rights and the Company's obligations under this Agreement. In the event of any change in any applicable law, statute, or rule which narrows the right of a Delaware corporation to indemnify a member of its board of directors, such changes, except to the extent otherwise required by such law, statute or rule to be applied to this Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

4.3 Non-Exclusivity. The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which an Indemnitee may be entitled under the Company's Certificate of Incorporation, its Bylaws, any agreement, any vote of shareholders or disinterested directors, the DGCL, or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while holding such office. The indemnification provided under this Agreement shall continue as to Indemnitee for an action taken or not taken while serving in an indemnified capacity even though he may have ceased to serve in such capacity at the time of any action, suit or other covered proceeding.

5. PARTIAL INDEMNIFICATION

If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the expenses, judgments, fines or penalties actually or reasonably incurred by Indemnitee in the investigation, defense, appeal or settlement of any civil or criminal action, suit or proceedings but not, however,

for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for that portion to which Indemnitee is entitled.

6. MUTUAL ACKNOWLEDGMENT

Both the Company and Indemnitee acknowledge that in certain instances, federal law or public policy may override applicable state law and prohibit the Company from indemnifying its directors under this Agreement or otherwise. For example, the Company and Indemnitee acknowledge that the Securities and Exchange Commission (the "SEC") has taken the position that indemnification is not permissible for liabilities arising under certain federal securities laws, and federal legislation prohibits indemnification for certain ERISA violations. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the SEC to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnitee.

7. LIABILITY INSURANCE

The Company shall, from time to time, make the good faith determination whether or not it is practicable for the Company to obtain and maintain a policy or policies of insurance with reputable, insurance companies providing the directors with coverage for losses from wrongful acts, or to ensure the Company's performance of its indemnification obligations under this Agreement. Among other considerations, the Company will weigh the costs of obtaining such insurance coverage against the protection afforded by such coverage. In all such policies of liability insurance, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's directors. Notwithstanding the foregoing, the Company shall have no obligation, to obtain or maintain such insurance if the Company determines in good faith that such insurance is not reasonably available, if the premium costs for such insurance are disproportionate to the amount of coverage provided, if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or if Indemnitee is covered by similar insurance maintained by a parent or Subsidiary of the Company.

8. SEVERABILITY

Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 8. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the

balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

9. EXCEPTIONS

9.1 Exceptions to Company's Obligations. Any other provision to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement for the following:

(a) Claims Initiated by Indemnitee. To indemnify or advance expenses to Indemnitee with respect to proceedings or claims initiated or brought voluntarily by Indemnitee and not by way of defense, unless said proceedings or claims were authorized by the board of directors of the Company.

(b) Improper Personal Benefit. To indemnify Indemnitee against liability for any transactions from which Indemnitee, or any Affiliate of Indemnitee, derived an improper personal benefit, including, but not limited to, self-dealing or usurpation of a corporate opportunity.

(c) Dishonesty. To indemnify Indemnitee if a judgment or other final adjudication adverse to Indemnitee established that Indemnitee committed acts of active and deliberate dishonesty, with actual dishonest purpose and intent, which acts were material to the cause of action so adjudicated.

(d) Insured Claims; Paid Claims. To indemnify Indemnitee for expenses or liabilities of any type whatsoever (including but not limited to, judgments, fines, ERISA excise taxes or penalties, and amounts paid in settlement) which have been paid directly to Indemnitee (i) by an insurance carrier under a policy of liability insurance maintained by the Company, or (ii) otherwise by any other means.

(e) Claims Under Section 16(b). To indemnify Indemnitee for an accounting of profits in fact realized from the purchase and sale of securities within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute.

10. MISCELLANEOUS

10.1 Construction of Certain Phrases.

(a) For purposes of this Agreement, references to the "Company" shall include any resulting or surviving corporation in any merger or consolidation in which the Company (as then constituted) is not the resulting or surviving corporation so that Indemnitee will continue to have the full benefits of this Agreement.

(b) For purposes of this Agreement, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on Indemnitee with respect to an employee benefit plan; and references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company which impose duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or beneficiaries; and if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner "reasonably believed to be in the best interests of the Company and its shareholders" as referred to in this Agreement.

10.2 Successors and Assigns. This Agreement shall be binding upon the Company and its successors and assigns, and shall inure to the benefit of Indemnitee and Indemnitee's estate, heirs, legal representatives and assigns. Notwithstanding the foregoing, the Indemnitee shall have no right or power to voluntarily assign or transfer any rights granted to Indemnitee, or obligations imposed upon the Company, by or pursuant to this Agreement. Further, the rights of the Indemnitee hereunder shall in no event accrue to the benefit of, or be enforceable by, any judgment creditor or other involuntary transferee of the Indemnitee.

10.3 Notice. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed duly given (i) if mailed by domestic certified or registered mail with postage prepaid, properly addressed to the parties at the addresses set forth below, or to such other address as may be furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be, on the third business day after the date postmarked, or (ii) otherwise notice shall be deemed received when such notice is actually received by the party to whom it is directed.

If to Indemnitee: John C. Cushman, III
Chairman
Cushman & Wakefield, Inc.
601 S. Figueroa St., 47th Floor
Los Angeles, CA 90017-5752

If to Company: Callaway Golf Company
2180 Rutherford Road
Carlsbad, CA 92008
Attention: Chief Legal Officer

10.4 Consent to Jurisdiction. The Company and Indemnitee each hereby irrevocably consent to the jurisdiction of the courts of the State of California for all purposes in connection with any action or proceeding which arises out of or related

to this Agreement and agree that any action instituted under this Agreement shall be brought only in the state courts of the State of California.

10.5 Choice of Law. This Agreement shall be governed by and its provisions construed in accordance with the internal laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within Delaware, and without regard to choice of law principles.

10.6 IRREVOCABLE ARBITRATION OF DISPUTES.

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

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

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

(d) THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE PROCEDURAL RULES STATED IN THE COMMERCIAL RULES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA") IN SAN DIEGO. THE ARBITRATION SHALL BE CONDUCTED IN SAN DIEGO BY A FORMER OR RETIRED JUDGE OR ATTORNEY WITH AT LEAST 10 YEARS EXPERIENCE IN COMMERCIAL-RELATED DISPUTES, OR A NON-ATTORNEY WITH LIKE EXPERIENCE IN THE AREA OF DISPUTE, WHO SHALL HAVE THE POWER TO HEAR MOTIONS, CONTROL DISCOVERY, CONDUCT HEARINGS AND OTHERWISE DO ALL THAT IS NECESSARY TO RESOLVE THE MATTER. THE PARTIES MUST MUTUALLY AGREE ON THE ARBITRATOR. IF THE PARTIES CANNOT AGREE ON THE ARBITRATOR AFTER THEIR BEST EFFORTS, AN ARBITRATOR FROM THE AMERICAN ARBITRATION ASSOCIATION WILL BE SELECTED PURSUANT TO THE AMERICAN ARBITRATION ASSOCIATION

NATIONAL RULES FOR RESOLUTION OF COMMERCIAL/BUSINESS DISPUTES. THE COMPANY SHALL PAY THE COSTS OF THE ARBITRATOR'S FEES.

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

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

(g) THE PREVAILING PARTY SHALL BE ENTITLED TO AN AWARD BY THE ARBITRATOR OF REASONABLE ATTORNEYS' FEES AND OTHER COSTS REASONABLY INCURRED IN CONNECTION WITH THE ARBITRATION.

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

I HAVE READ SECTION 10.6 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

/s/ JCC	/s/ RAD
(INDEMNITEE'S INITIALS)	(COMPANY'S INITIALS)

10.7 Entire Agreement. The provisions of this Agreement contain the entire agreement between the parties. This Agreement may not be released, discharged, abandoned, changed or modified in any manner except by an instrument in writing signed by the parties.

10.8 Counterparts. This Agreement may be executed in counterparts, each of which shall constitute an original and all of which together shall constitute one and the same instrument.

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

CALLAWAY GOLF COMPANY

/s/ Ronald A. Drapeau

Ronald A. Drapeau
Chairman, President and
Chief Executive Officer

INDEMNITEE

/s/ John C. Cushman, III

John C. Cushman, III

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Ronald A. Drapeau, 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)) 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) 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

(c) 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 weakness 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/ RONALD A. DRAPEAU

Ronald A. Drapeau
Chairman, President and Chief Executive Officer

Dated: August 5, 2003

A signed original of this Certification has been provided to Callaway Golf Company and will be retained by Callaway Golf Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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 officers 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)) 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) 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

(c) 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
Executive Vice President and Chief Financial Officer

Dated: August 5, 2003

A signed original of this Certification has been provided to Callaway Golf Company and will be retained by Callaway Golf Company and furnished to the Securities and Exchange Commission or its staff upon request.

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 quarter ended June 30, 2003, 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; and

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

The undersigned have executed this Certification effective as of August 5, 2003.

/s/ RONALD A. DRAPEAU

Ronald A. Drapeau
Chairman, President and Chief Executive Officer

/s/ BRADLEY J. HOLIDAY

Bradley J. Holiday
Executive Vice President and Chief Financial Officer

A signed original of this certification has been provided to Callaway Golf Company and will be retained by Callaway Golf Company and furnished to the Securities and Exchange Commission or its staff upon request.