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, 2001

OR

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

Commission file number 1-10962

CALLAWAY GOLF COMPANY

(Exact name of registrant as specified in its charter)

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

2180 Rutherford Road, Carlsbad, CA 92008-8815

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

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

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of July 31, 2001 was 82,397,373.

Important Notice: Statements made in this report that relate to future plans, events, financial results or performance, including statements relating to future liquidity, 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 below — Certain Factors Affecting Callaway Golf Company, as well as the Company's other periodic reports on Forms 10-K, 10-Q and 8-K subsequently filed with the Securities and Exchange Commission from time to time. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Investors also should 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 securities 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.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CALLAWAY GOLF COMPANY

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

	June 30, 2001	December 31, 2000
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$131,831	$102,596
Accounts receivable, net (Note 5)	141,936	58,836
Inventories, net	138,810	133,962
Deferred taxes	24,773	29,354
Other current assets	14,452	17,721
Total current assets	451,802	342,469
Property, plant and equipment, net	132,611	134,712
Intangible assets, net	124,441	112,824

Other assets	37,402	40,929
	$746,256	$630,934
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 56,187	$ 44,173
Accrued employee compensation and benefits	29,709	22,574
Accrued warranty expense	38,212	39,363
Income taxes payable		3,196
Total current liabilities	124,108	109,306
Long-term liabilities	21,520	9,884
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at June 30, 2001 and December 31, 2000		
Common Stock, $.01 par value, 240,000,000 shares authorized, 82,407,373 and 78,958,963 issued at June 30, 2001 and December 31, 2000, respectively	824	790
Paid-in capital	388,876	347,765
Unearned compensation	(636)	(1,214)
Retained earnings	400,780	349,681
Accumulated other comprehensive income	(5,477)	(6,096)
Less: Grantor Stock Trust (5,300,000 shares) at market value	(83,740)	(98,713)
	700,627	592,213
Less: Common Stock held in treasury, at cost, 5,837,441 shares and 4,815,241 shares at June 30, 2001 and December 31, 2000, respectively	(99,999)	(80,469)
Total shareholders' equity	600,628	511,744
	$746,256	$630,934

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

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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,			
	2001		2000		2001		2000	
Net sales	$253,655	100%	$289,922	100%	$515,021	100%	$487,328	100%
Cost of goods sold	121,719	48%	145,415	50%	246,177	48%	254,556	52%
Gross profit	131,936	52%	144,507	50%	268,844	52%	232,772	48%
Operating expenses:								
Selling	54,131	21%	47,990	17%	107,377	21%	90,740	19%
General and administrative	20,586	8%	17,614	6%	40,436	8%	35,121	7%
Research and development	8,444	4%	8,132	3%	17,378	3%	16,349	3%
Income from operations	48,775	19%	70,771	24%	103,653	20%	90,562	19%
Other (expense) income, net	(3,557)		2,141		(2,627)		3,726	
Income before provision for income taxes and cumulative effect of accounting change	45,218	18%	72,912	25%	101,026	20%	94,288	19%
Provision for income taxes	18,243		28,723		39,976		37,001	
Income before cumulative effect of accounting change	26,975	11%	44,189	15%	61,050	12%	57,287	12%
Cumulative effect of accounting change							(957)	

Net income	$ 26,975	11%	$ 44,189	15%	$ 61,050	12%	$ 56,330	12%
Earnings per common share:								
Basic								
Income before cumulative effect of accounting change	$ 0.38		$ 0.63		$ 0.86		$ 0.80	
Cumulative effect of accounting change							(0.01)	
Net income	$ 0.38		$ 0.63		$ 0.86		$ 0.79	
Diluted								
Income before cumulative effect of accounting change	$ 0.36		$ 0.61		$ 0.83		$ 0.79	
Cumulative effect of accounting change							(0.01)	
Net income	$ 0.36		$ 0.61		$ 0.83		$ 0.78	
Weighted average shares used in earnings per share computations:								
Basic	71,490		70,693		70,754		70,946	
Diluted	74,777		72,686		73,619		72,584	
Dividends paid per share	$ 0.07		$ 0.07		$ 0.14		$ 0.14	

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

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CALLAWAY GOLF COMPANY

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

	Six Months Ended June 30,	
	2001	2000
Cash flows from operating activities:		
Net income	$ 61,050	$ 56,330
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,303	19,739
Loss on disposal of assets	1,686	332
Non-cash compensation	348	1,381
Tax benefit from exercise of stock options	13,845	4,475
Net non-cash foreign currency and hedging gains	(2,965)	
Deferred taxes	7,430	1,104
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(85,401)	(80,619)
Inventories, net	(7,427)	(7,519)
Other assets	(4,579)	294
Accounts payable and accrued expenses	16,767	7,291
Accrued employee compensation and benefits	7,289	4,106
Accrued warranty expense	(1,151)	4,098
Income taxes payable	(2,789)	21,771
Accrued restructuring cost-long term		(1,056)
Other liabilities	11,636	(413)
Net cash provided by operating activities	34,042	31,314
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(1,529)	(426)
Capital expenditures	(14,689)	(16,168)
Sale of property and equipment	41	79
Net cash used in investing activities	(16,177)	(16,515)
Cash flows from financing activities:		
Issuance of Common Stock	42,503	18,599

Dividends paid	(9,951)	(9,917)
Acquisition of Treasury Stock	(19,530)	(50,000)
Proceeds from sale-leaseback of equipment		1,268
Net cash provided by (used in) financing activities	13,022	(40,050)
Effect of exchange rate changes on cash	(1,652)	(171)
Net increase (decrease) in cash and cash equivalents	29,235	(25,422)
Cash and cash equivalents at beginning of period	102,596	112,602
Cash and cash equivalents at end of period	$131,831	$ 87,180

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

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CALLAWAY GOLF COMPANY

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

	Common Stock							Treasury Stock			
	Shares	Amount	Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income	GST	Shares	Amount	Total	Comprehensive Income
Balance, December 31, 2000	78,959	$790	$347,765	$(1,214)	$349,681	$(6,096)	$(98,713)	(4,815)	$(80,469)	$511,744	
Exercise of stock options	3,175	31	39,337							39,368	
Cancellation of Restricted Common Stock	(10)		(310)	310							
Tax benefit from exercise of stock options			13,845							13,845	
Acquisition of Treasury Stock								(1,022)	(19,530)	(19,530)	
Compensatory stock and stock options			80	268						348	
Employee stock purchase plan	283	3	3,132							3,135	
Cash dividends paid					(9,951)					(9,951)	
Adjustment of GST shares to market value			(14,973)				14,973				
Foreign currency translation						(3,184)				(3,184)	$ (3,184)
Unrealized gain on cash flow hedges, net of tax						3,803				3,803	3,803
Net income					61,050					61,050	61,050
Balance, June 30, 2001	82,407	$824	$388,876	$ (636)	$400,780	$(5,477)	$(83,740)	(5,837)	$(99,999)	$600,628	$61,669

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

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CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying financial information for the three and six months ended June 30, 2001 and 2000 has been prepared by Callaway Golf Company (the "Company") and has not been audited. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for the fair presentation of the financial position, results of operations and cash flows for the periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed for the year ended December 31, 2000. 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.

2. Reclassifications and Recent Accounting Pronouncements

In the fourth quarter of 2000, the Company adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101") with an effective date of January 1, 2000. SAB No. 101 summarizes the Securities and Exchange Commission's ("SEC") Division of Corporation Finance Staff's views in applying accounting principles generally accepted in the United States to revenue recognition in financial statements. The Company's Consolidated Condensed Statements of Operations for the three and six months ended June 30, 2000 have been adjusted from amounts previously reported in the prior year Form 10-Q filed with the SEC to reflect the application of SAB 101. Accordingly, net sales and provision for income taxes have been reduced by $1,037,000 and $510,000, respectively, and cost of goods sold was increased by $254,000, for the three months ended June 30, 2000 from amounts previously reported. For the six months ended June 30, 2000, net sales, cost of goods sold and provision for income taxes have been reduced by $11,520,000, $5,117,000 and $2,515,000, respectively, from amounts previously reported. The cumulative effect of accounting change on periods prior to 2000 was $957,000 and is included in the Consolidated Condensed Statements of Operations for the six months ended June 30, 2000.

In July 2000, the Emerging Issues Task Force ("EITF") finalized its consensus on Issue No. 00-10, "Accounting for Shipping and Handling Revenues and Costs." Pursuant to EITF Issue No. 00-10 and the SEC's position on this issue, all amounts billed to customers for shipping and handling should be included in "net sales" and costs incurred related to shipping and handling should be included in "cost of goods sold." The Company had previously included shipping and handling revenues and costs in "selling" costs. The Company's Consolidated Condensed Statements of Operations for the three and six months ended June 30, 2000 have been reclassified from the prior year Form 10-Q filed with the SEC to include an increase in net sales of $1,925,000 and $3,206,000, respectively, and an increase in cost of goods sold of $3,654,000 and $5,986,000, respectively, to reflect the classification required by EITF Issue No. 00-10. There was no effect on operating results as a result of the adoption of EITF Issue No. 00-10.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. SFAS No. 142 requires the use of a non-amortization approach to

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account for purchased goodwill. Goodwill acquired on or prior to June 30, 2001 will no longer be amortized effective January 1, 2002. Goodwill acquired on or after July 1, 2001 will follow the non-amortization approach under SFAS No. 142. Under the non-amortization approach, goodwill would be tested for impairment, rather than being amortized to earnings, as originally proposed. In addition, SFAS No. 142 requires that acquired intangible assets be separately identified and amortized over their individual useful lives. The Company will be required to adopt these statements beginning January 1, 2002. Based on the Company's current carrying value of goodwill and intangible assets at June 30, 2001, unamortized goodwill and intangible asset balances are expected to be approximately $16.9 million and $104.1 million, respectively, at December 31, 2001. In accordance with SFAS No. 142, the goodwill balance that was being amortized over periods ranging from five to 40 years will follow the non-amortization approach after January 1, 2002.

3. Inventories

	June 30, 2001	December 31, 2000
	(Unaudited)	
Inventories, net (in thousands):		
Raw materials	$ 58,284	$ 56,936
Work-in-process	1,916	1,293
Finished goods	86,865	83,453
	147,065	141,682
Less reserve for obsolescence	(8,255)	(7,720)
	$138,810	$133,962

4. Bank Lines of Credit

The Company has a revolving credit facility of up to $120.0 million (the "Amended Credit Agreement"). The Amended Credit Agreement is secured by substantially all of the assets of the Company and expires in February 2004. The Amended Credit Agreement bears interest at the Company's election at the

London Interbank Offering Rate ("LIBOR") plus a margin or the higher of the base rate on corporate loans at large U.S. money center commercial banks (prime rate) or the Federal Funds Rate plus 50 basis points. The Amended Credit Agreement requires the Company to maintain certain minimum financial ratios including a fixed charge coverage ratio, as well as other restrictive covenants. As of June 30, 2001, up to $119.3 million of the credit facility remained available for borrowings (including a reduction of $0.7 million for outstanding letters of credit), subject to meeting certain availability requirements under a borrowing base formula and other limitations.

The Company's Japanese subsidiary has two separate credit facilities with an aggregate commitment of 2.5 billion yen (approximately $20.0 million at June 30, 2001). These credit facilities do not expire and are cancelable at the Company's discretion without penalty. Borrowings under these agreements bear interest equal to the Tokyo Interbank Offering Rate ("TIBOR") plus a margin. As of June 30, 2001, the Company had no borrowings under these credit facilities.

5. Accounts Receivable Securitization

The Company's wholly-owned subsidiary, Callaway Golf Sales Company, sells trade receivables on an ongoing basis to its wholly-owned subsidiary, Golf Funding Corporation ("Golf Funding"). Pursuant to an agreement with a securitization company (the "Accounts Receivable Facility"), Golf Funding, in turn, can sell such receivables to the securitization company on an ongoing basis, which could yield proceeds of up to $80.0 million, subject to meeting certain availability requirements under a borrowing base formula and other

limitations. Golf Funding's sole business is the purchase of trade receivables from Callaway Golf Sales Company. Golf Funding is a separate corporate entity with its own separate creditors, which in the event of its liquidation would be entitled to be satisfied out of Golf Funding's assets prior to any value in Golf Funding becoming available to the Company. The Accounts Receivable Facility expires in February 2004.

Under the Accounts Receivable Facility, the receivables are sold at face value with payment of a portion of the purchase price being deferred. As of June 30, 2001, no amount was outstanding under the Accounts Receivable Facility. Fees incurred in connection with this facility for each of the three and six month periods ended June 30, 2001 and 2000 were $76,000 and $152,000, respectively. These fees were recorded in "other (expense) income, net."

6. 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, 2001 and 2000 is presented below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	(Unaudited)			
Weighted-average shares outstanding (in thousands):				
Weighted-average shares outstanding — Basic	71,490	70,693	70,754	70,946
Dilutive securities	3,287	1,993	2,865	1,638
Weighted-average shares outstanding — Diluted	74,777	72,686	73,619	72,584

For the three months ended June 30, 2001 and 2000, 6,111,000, and 8,482,000, respectively, options outstanding were excluded from the calculations, as their effect would have been antidilutive. For the six months ended June 30, 2001 and 2000, 6,002,000 and 8,986,000, respectively, options outstanding were excluded from the calculations, as their effect would have been antidilutive.

7. Commitments and Contingencies

To manage its electricity costs in light of uncertainty in the California energy market, the Company entered into a long-term energy supply contract at a fixed rate for a delivery term defined as June 1, 2001 through May 31, 2006 (see Note 10). To obtain a more favorable price and to assure adequate supplies during times of peak loads, the Company agreed to purchase a greater supply of electricity than it expects to use in its business. The Company expects to sell some or all of this excess supply based on energy market conditions. The total purchase price over the contract term is approximately $43.5 million.

At June 30, 2001, the Company was contingently liable for lease payments relating to a facility in New York City totaling $4.4 million. This contingency is the result of the assignment of an operating lease to a third party and expires in February 2003.

On July 24, 2000, Bridgestone Sports Co., Ltd. ("Bridgestone") filed a complaint for patent infringement in the United States District Court for the Northern District of Georgia, Civil Action No. 100-CV-1871, against Callaway Golf Company, Callaway Golf Ball Company (collectively "Callaway Golf"), and a golf retailer located in Georgia (the "U.S. Action"). Bridgestone alleges in the U.S. Action that the manufacture and sale of the Company's Rule 35® golf ball infringes four U.S. golf ball patents owned by Bridgestone. Bridgestone is seeking unspecified damages and injunctive relief. On September 12, 2000, Callaway Golf answered the Complaint, and asserted affirmative counterclaims against Bridgestone seeking a judicial declaration that Callaway Golf does not infringe the Bridgestone patents, that the patents are invalid, and that Bridgestone engaged in inequitable conduct in the United States Patent and Trademark Office. On

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CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

October 13, 2000, Bridgestone and the retailer defendant entered into a consent judgment discontinuing the action against the retailer. The parties are engaged in discovery. No trial date has been set by the District Court.

On December 14, 2000, Bridgestone filed an action in the Tokyo, Japan District Court asserting patent infringement against Callaway Golf's wholly-owned subsidiary, Callaway Golf K.K., based on its sale of Rule 35® Softfeel™ golf balls in Japan (the "Japan Action"). Only one of the Bridgestone patents at issue in the U.S. Action has issued in Japan. Callaway Golf has denied the claims asserted in the Japan Action and has filed an invalidity proceeding with the Japanese Patent Office to invalidate the Bridgestone Patent.

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

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims, including the matters specifically noted above. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of June 30, 2001. However, management believes at this time that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

8. Restructuring

In 1998, the Company recorded a restructuring charge of $54.2 million resulting from a number of cost reduction actions and operational improvements. During 1999, the Company completed its restructuring initiatives. During the three and six month periods ended June 30, 2000, the Company paid $0.6 million and $1.1 million, respectively, related to its restructuring obligations, primarily rents associated with its former New York City facility (see Note 7). At June 30, 2001, there was no remaining reserve balance.

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CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

9. Segment Information

The Company's operating segments are organized on the basis of products and include golf clubs and golf balls. The Golf Clubs segment consists of Callaway Golf® titanium and stainless steel metal woods and irons, Callaway Golf® and Odyssey® putters and wedges, and related accessories. The Golf Balls segment consists of golf balls that are designed, manufactured, marketed and distributed by the Company. The table below contains information utilized by management to evaluate its operating segments for the interim periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
(In thousands)	(Unaudited)			
Net sales				
Golf clubs	$232,719	$279,239	$482,558	$470,685
Golf balls	20,936	10,683	32,463	16,643
	$253,655	$289,922	$515,021	$487,328
Income (loss) before provision for income taxes and cumulative effect of accounting change				
Golf clubs	$ 68,135	$ 95,470	$142,591	$141,730
Golf balls	(3,842)	(13,802)	(9,909)	(29,102)
Reconciling items[(1)]	(19,075)	(8,756)	(31,656)	(18,340)

	$ 45,218	$ 72,912	$101,026	$ 94,288
Additions to long-lived assets				
Golf clubs	$ 4,715	$ 6,265	$ 12,234	$ 13,271
Golf balls	12,033	1,075	13,078	2,897
	$ 16,748	$ 7,340	$ 25,312	$ 16,168

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

10. Derivatives and Hedging

The Company uses derivative financial instruments to manage its exposures to electricity prices and foreign exchange rates. The derivative instruments are accounted for pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." As amended, SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position, 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.

Energy Derivative

During the second quarter of 2001, the Company entered into a long-term, fixed-price, fixed-capacity, energy supply contract in order to manage its exposure to changes in energy prices which are subject to significant and often volatile fluctuation. The contract is effective through May 2006. As of June 30, 2001, this derivative did not qualify for hedge accounting treatment under SFAS No. 133. The Company recognized the changes in the fair value of the contract currently in earnings. The fair value of the contract as of June 30, 2001 was estimated based on market prices of electricity for the remaining period covered by the contract. The net differential between the contract price and market prices for future periods has been applied to the volume

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stipulated in the contract to arrive at an estimated future value. This estimated future value was discounted at rates commensurate with the Company's estimation of contract performance risk. In addition, the contract extends beyond 18 months into the future and the market for electricity in California beyond the 18-month horizon is unpredictable and published market quotations are not available. The Company has relied upon near-term market quotations and other market information to determine fair value estimates. For the quarter ended June 30, 2001, the Company recorded $7.7 million of net realized and unrealized losses related to the energy derivative in "other (expense) income, net".

Foreign Currency Exchange Contracts

During the three and six months ended June 30, 2001, the Company entered into forward foreign currency exchange rate contracts to hedge payments due on intercompany transactions from certain wholly-owned foreign subsidiaries and on certain euro-denominated accounts receivable. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. The Company does not engage in foreign currency speculation. These foreign exchange contracts do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset the losses and gains on the transactions being hedged, and the Company does not engage in hedging contracts which exceed the amount of the intercompany transactions. At June 30, 2001, the Company had approximately $52.5 million of foreign exchange contracts outstanding. The contracts mature between July and December of 2001. Gains and losses on the contracts are recorded in income. The net realized and unrealized gains from foreign exchange contracts for the three and six months ended June 30, 2001 totaled approximately $0.7 million and $6.0 million, respectively. For the three and six months ended June 30, 2000, net realized and unrealized gains totaled $2.3 million and $2.0 million, respectively.

During the fourth quarter of 2000, the Company utilized forward foreign currency exchange rate contracts to hedge cash flows associated with forecasted intercompany sales of inventory. These forward contracts are accounted for as cash flow hedges. The Company only hedges transactions that it deems to be more likely than not to occur. During 2000, the Company hedged only those transactions forecasted to occur by December 31, 2001. As of June 30, 2001, the Company had approximately $35.8 million of cash flow hedges outstanding. The Company assesses the effectiveness of these derivatives 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 (expense) income, net." 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 hedging item and the hedging instrument are evaluated using the same spot rate, the Company anticipates hedges of anticipated intercompany inventory sales to be highly effective. The effectiveness of each derivative is assessed monthly. During the three and six months ended June 30, 2001, a gain of $178,000 and $682,000, respectively, was recorded in "other (expense) income, net" representing the ineffective portion of the Company's derivative instruments.

The effective portion of the fair value of the derivatives is deferred on the balance sheet in other comprehensive income ("OCI"), a component of "Accumulative other comprehensive income." Amounts recorded in OCI will be released to earnings in the same period that the hedged transaction will impact the Company's consolidated earnings. This transaction date is assumed to occur when the underlying sale of product to a third party occurs. At June 30, 2001, $1,558,000 of deferred net gain is expected to be reclassified into earnings within the next six months. During the three and six months ended June 30, 2001, no gains or losses were reclassified into earnings as a result of discontinuance of any cash flow hedges.

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

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

Results of Operations

Prior Period Financial Statements

Prior period amounts have been restated to reflect the Company's current year presentation including the adoption of Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101") and Emerging Issues Task Force Issue No. 00-10 ("EITF 00-10"). The Company adopted SAB No. 101 in the fourth quarter of 2000 with an effective date of January 1, 2000. As a result of the adoption of SAB No. 101, the Company adjusted amounts previously reported in the prior year Form 10-Q. Gross profit for the quarter ended June 30, 2000 also reflects the effect of a reclassification of shipping revenues and costs from selling expenses to net sales and costs of goods sold. This reclassification was required by EITF 00-10 and did not result in a change in the Company's earnings or earnings per share for the period. See Note 2 to the Consolidated Condensed Financial Statements for further detail.

Three-month periods ended June 30, 2001 and 2000

Net sales decreased 13% to $253.7 million for the three months ended June 30, 2001 compared to $289.9 million for the comparable period in the prior year. Both unit and dollar sales of irons and metal woods decreased in the second quarter of 2001 as compared to the second quarter of 2000. Sales of the Company's iron products were lower by $33.5 million (32%) in the second quarter of 2001 compared to the same quarter a year earlier. In total, sales of metal woods decreased by $15.6 million (11%) in the quarter ended June 30, 2001 compared to the same quarter of 2000. The decrease in sales of irons and woods primarily represents a decline in sales of Great Big Bertha® Hawk Eye® Tungsten Injected™ Titanium Irons, Steelhead™ X-14® Stainless Steel Irons and Steelhead Plus™ Stainless Steel metal woods, all of which were introduced in January 2000. The decrease in sales of irons and metal woods was partially offset by the growth in the Company's golf ball sales, which increased by $10.3 million (97%) in the current quarter compared to the second quarter of 2000. The Company believes that the overall decline in net sales was largely due to a shifting of some sales from the second quarter to the first quarter due to earlier availability of new products than has historically been the case, a decline in the number of golf rounds played as a result of unusually poor weather in the United States and Europe late into the season, aggressive competitive pricing, economic concerns among retailers and consumers, and the United States Golf Association's actions in the United States against the Big Bertha® ERC® II Driver. The strength of the U.S. dollar in relation to other foreign currencies also had a significant adverse effect upon the Company's net sales for the second quarter of 2001 as compared to the second quarter of 2000. As compared to the second quarter of 2000, fluctuations in foreign currency exchange rates adversely impacted second quarter 2001 net sales by approximately $11.8 million, as measured by applying second quarter 2000 exchange rates to second quarter 2001 net sales.

During the second quarter of 2001, sales decreased in virtually all regions as compared with the second quarter of 2000. Sales in the United States decreased $15.1 million (10%) to $139.7 million during the second quarter of 2001 versus the second quarter of 2000. Overall, the Company's sales in regions outside of the United States decreased $21.2 million (16%) to $114.0 million during the second quarter of 2001 versus the same quarter of 2000. Had exchange rates for the second quarter of 2001 been the same as the second quarter 2000 exchange rates, overall sales in regions outside of the United States would have been approximately 10% higher than reported. Sales in Japan decreased $2.3 million (6%) in the second quarter of 2001 to $37.1 million as compared to the same period in the prior year. Sales in Europe decreased $11.7 million (24%) to $37.1 million as compared to the second quarter of 2000, and sales in Canada decreased $0.9 million (7%) in the second quarter of 2001 to $12.5 million as compared to the same period in the prior year. Sales in Rest of Asia (including Korea) decreased $7.1 million (26%) to $20.0 million and sales in the regions comprising Rest of World decreased $0.3 million (6%) to $4.5 million in the second quarter of 2001 as compared with the

second quarter of 2000. Sales in Australia increased $1.2 million (71%) to $2.8 million during the second quarter of 2001. The Company acquired its distribution rights in Australia, Italy, Portugal, and Spain in the first quarter of 2001 and therefore began selling directly to retailers rather than a third party distributor.

For the second quarter of 2001, gross margin decreased to $131.9 million from $144.5 million in the second quarter of 2000, but increased as a percentage of net sales to 52% from 50%. This improvement in gross margin percentage is a result of a shift in club product mix away from lower yielding iron products to higher yielding wood products. The margin was also favorably affected by a reduction in the Company's warranty expense as a percent of net sales in the second quarter of 2001 as compared to the second quarter of 2000. Golf ball product margins improved in the second quarter of 2001 as compared to the first quarter of 2000, associated with increased sales volume and an increase in plant utilization and production yields.

Selling expenses in the second quarter of 2001 increased to $54.1 million from $48.0 million in the comparable period of 2000, or 21% and 17% of net sales, respectively. This dollar increase was primarily due to increased advertising and promotional expenses related to the Company's new product launches, the rollout of the new fitting cart systems and store-in-store project, and other demand creation initiatives.

General and administrative expenses increased to $20.6 million in the second quarter of 2001 from $17.6 million in the comparable period of 2000, or 8% and 6% of net sales, respectively. This dollar increase is mainly attributable to higher employee compensation and legal expenses, partially offset by a decrease in depreciation expense.

Research and development expenses increased to $8.4 million in the second quarter of 2001 from $8.1 million in the second quarter of 2000, or 4% and 3% of net sales, respectively. This dollar increase resulted primarily from increased employee costs.

Other expenses totaled $3.6 million in the second quarter of 2001 as compared to other income of $2.1 million in the second quarter of 2000. The $5.7 million of additional expense is primarily attributable to realized and unrealized losses of $7.7 million associated with the valuation of a long-term energy supply contract partially offset by a $1.3 million increase in licensing fees, a $0.5 million increase in foreign currency transaction gains, and a $0.2 million increase in net interest income.

For the second quarter of 2001, the Company recorded a provision for income taxes of $18.2 million and recognized a decrease in deferred taxes of $6.8 million. The provision for income taxes as a percentage of income before taxes increased slightly to 40% for the three months ended June 30, 2001 as compared to 39% for the comparable period of 2000. During the second quarter of 2001, the Company realized $5.3 million in tax benefits related to the exercise of employee stock options.

Second quarter 2001 net income declined 39% to $27.0 million from $44.2 million in the comparable period of the prior year. Second quarter 2001, diluted earnings per share decreased 41% to $0.36 from $0.61 in the same period last year. The Company entered into a long-term energy supply contract during the second quarter to manage its electricity costs in light of uncertainty in the California energy market. During the quarter ended June 30, 2001, the Company recorded a non-cash expense of $6.2 million after-tax or $0.08 per diluted share, as a result of the change in market value of the energy supply contract. Excluding this non-cash energy supply contract charge, the Company's net income decreased 25% to $33.2 million and diluted earnings per share decreased 28% to $0.44.

Six-month periods ended June 30, 2001 and 2000

For the six months ended June 30, 2001, net sales increased $27.7 million, or 6%, to $515.0 million from $487.3 million in the comparable period of the prior year. The increase primarily represents an increase in sales of titanium metal woods, due to the worldwide launch of the new Big Bertha® ERC II Driver and the new Big Bertha® Hawk Eye® VFT™ Woods in October 2000. These products began shipping in significant quantities in the first quarter of 2001. In total, sales of metal woods increased by $43.8 million (19%) in the first half of 2001 compared to the first half of 2000. The increase in revenues was also the result of growth in the Company's golf ball sales, which increased by $15.8 million (95%) in the first six months of 2001 compared to the same period of 2000. These increases were offset in part by lower sales of the Company's iron

products. Sales of the Company's irons declined by $46.0 million (25%) in the first half of 2001 compared to the same period a year earlier. The Company believes that net sales for the first half of 2001 were adversely affected by a decline in the number of golf rounds played as a result of unusually poor weather in the United States and Europe late into the season, aggressive competitive pricing, economic concerns among retailers and consumers, and the United States Golf Association's actions in the United States against the Big Bertha ERC II driver. The strength of the U.S. dollar in relation to other foreign currencies also had a significant adverse effect upon the Company's net sales for the first half of 2001 as compared to the first half of 2000. As compared to the first half of 2000, fluctuations in foreign currency exchange rates adversely impacted first half 2001 net sales by approximately $22.1 million, as measured by applying first half 2000 exchange rates to first half 2001 net sales.

Sales in the United States increased $19.1 million (7%) to $287.5 million during the first half of 2001 versus the first half of 2000. Overall, the Company's sales in regions outside of the United States increased $8.6 million (4%) to $227.5 million during the first half of 2001 versus the same period of 2000. Had exchange rates for the first half of 2001 been the same as the first half 2000 exchange rates, overall sales in regions outside of the United States would have been approximately 10% higher. Sales in Japan increased $18.7 million (32%) in the first half of 2001 to $78.1 million as compared to the same period in the prior year. However, sales in Europe decreased $8.3 million (10%) to $74.5 million as compared to the first half of 2000 and sales in the Rest of Asia (including Korea) decreased $5.5 million (13%) to $37.6 million in the first half of 2001 as compared with the first half of 2000. Sales in Canada increased $0.6 million (3%) in the first six months of 2001 to $20.9 million as compared to the same period in 2000 and sales in the regions comprising the Rest of World increased $1.2 million (12%) to $11.0 million in the first half of 2001 versus the first half of 2000. Sales in Australia increased $1.9 million (53%) to $5.4 million during the first half of 2001. The Company acquired its distribution rights in Australia, Italy, Portugal, and Spain in the first quarter of 2001 and therefore began selling directly to retailers rather than a third party distributor.

For the six months ended June 30, 2001, gross margin increased to $268.8 million from $232.8 million in the comparable period of 2000, and as a percentage of net sales, increased to 52% from 48%. This improvement in gross margin is a result of a shift in club product mix away from lower yielding iron products to higher yielding wood products. The margin was also favorably affected by a reduction in the Company's warranty expense as a percent of net sales during the six month period ended June 30, 2001 as compared to the same period in 2000. Golf ball product margins improved in the first half of 2001 as compared to the first half of 2000, associated with increased sales volume and an increase in plant utilization and production yields.

Selling expenses in the first half of 2001 increased to $107.4 million (21% of net sales) from $90.7 million (19% of net sales) in the first half of 2000. The dollar increase was primarily due to increased advertising and promotional expenses related to the Company's new product launches, the rollout of the new fitting cart systems and store-in-store project, and other demand creation initiatives.

General and administrative expenses in the first half of 2001 increased to $40.4 million (8% of net sales) from $35.1 million (7% of net sales) in the comparable period of 2000. The dollar increase is mainly attributable to moving costs associated with the consolidation of operating facilities combined with higher employee compensation and legal expenses, partially offset by a decrease in depreciation expense.

Research and development expenses in the first half of 2001 increased to $17.4 million (3% of net sales) from $16.3 million (3% of net sales) in the first half of 2000. The dollar increase resulted primarily from increased employee costs.

Other expenses in the first half of 2001 totaled $2.6 million as compared to other income of $3.7 million in the comparable period of 2000. The $6.3 million of additional expense is primarily attributable to realized and unrealized losses of $7.7 million associated with the valuation of a long-term energy supply contract and a decrease in net interest income of $1.4 million partially offset by a $1.4 million increase in foreign currency transaction gains, a $1.1 million increase in licensing fees, and a $0.3 million increase in other income.

For the six months ended June 30, 2001, the Company recorded a provision for income taxes of $40.0 million and recognized a decrease in deferred taxes of $7.4 million. The provision for income taxes as a percentage of income before taxes for the six months ended June 30, 2001 and 2000 was 40% and 39%, respectively. During the first half of 2001, the Company realized $13.8 million in tax benefits related to the exercise of employee stock options.

Net income for the six months ended June 30, 2001 increased 9% to $61.1 million, compared to $56.3 for the comparable period last year. Earnings per diluted share during the period, increased 6% to $0.83 from $0.78 for the comparable period last year. The Company entered into a long-term energy supply contract during the second quarter to manage its electricity costs in light of uncertainty in the California energy market. During the first half of 2001, the Company recorded a non-cash expense of $6.2 million after-tax or $0.08 per diluted share, as a result of the change in market value of the energy supply contract. Excluding this non-cash energy supply contract charge, the Company's net income for the first six months increased 20% to $67.3 million and diluted earnings per share increased 17% to $0.91.

Liquidity and Capital Resources

At June 30, 2001, cash and cash equivalents increased to $131.8 million from $102.6 million at December 31, 2000. This increase for the six month period ended June 30, 2001 primarily resulted from cash provided by operating and financing activities of $34.0 million and $13.0 million, respectively, partially offset by cash used in investing activities of $16.2 million. Cash flows provided by financing activities are primarily attributable to the exercise of employee stock options ($42.5 million) partially offset by the acquisition of treasury stock ($19.5 million) and the payment of dividends ($10.0 million). Cash flows used in investing activities are primarily attributable to capital expenditures of $14.7 million.

The Company's principal source of liquidity, both on a short-term and long-term basis, has been cash flow provided by operations and the Company's credit facilities. The Company currently expects this to continue. The Company has a revolving credit facility for up to $120.0 million (the "Amended Credit Agreement") and an $80.0 million accounts receivable securitization facility (the "Accounts Receivable Facility"). In addition, the Company's Japanese subsidiary has two separate credit facilities with an aggregate commitment of 2.5 billion yen (approximately $20.0 million at June 30, 2001). During the first six months of 2001, the Company did not utilize either its Accounts Receivable Facility or its lines of credit under the Amended Credit Agreement and the Japanese credit facilities. At June 30, 2001, the Company had $119.3 million available, net of outstanding letters of credit, under the Amended Credit Agreement, subject to meeting certain availability requirements under a borrowing base formula and other limitations. Also at June 30, 2001, there were no advances under the Accounts Receivable Facility, leaving up to $80.0 million available under this facility and the Company had no borrowings under the Japanese credit facilities. See Notes 4 and 5 to the Consolidated Condensed Financial Statements for further detail.

In May 2000, the Company announced that its Board of Directors authorized it to repurchase 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. During the second quarter of 2001, the Company repurchased 1.0 million shares of the Company's Common Stock at an average cost of $19.07 per share. The Company began its repurchase program in May 2000 and during the second quarter of 2001 completed the program which resulted in the repurchase of a total of 5.8 million shares of the Company's Common Stock at an average cost of $17.13 per share.

Although the Company's golf club operations are mature and historically have generated cash from operations, the Company's golf ball operations are relatively new and to date have not generated cash flows sufficient to fund these operations. The Company does not expect that its golf ball operations will generate sufficient cash to fund these operations for the remainder of 2001. However, the Company believes that, based upon its current operating plan, analysis of consolidated financial position and projected future results of operations, it will be able to maintain its current level of consolidated operations, including purchase commitments and planned capital expenditures, for the foreseeable future through operating cash flows and its credit facilities. There can be no assurance, however, that future industry specific or other developments, or

general economic trends, will not adversely affect the Company's operations or its ability to meet its future cash requirements.

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.

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. An adverse change in economic conditions in the United States or in the Company's international markets (which represent almost half of the Company's total sales), or even a decrease in consumer confidence as a result of anticipated adverse changes in 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 economic conditions in the United States, Japan, Europe, Korea and other countries are currently viewed by many as uncertain or troubled.

Growth Opportunities

Golf Clubs. In order for the Company to grow significantly its sales of golf clubs, the Company must either increase its share of the market for golf clubs or the market for golf clubs must grow. The Company already has a significant share of the worldwide premium golf club market and therefore opportunities for additional market share may be limited. The Company does not believe there has been any material increase in participation or the number of rounds played in 1999 and 2000. Furthermore, the Company believes that since 1997 the overall worldwide premium golf club market has generally not experienced substantial growth in dollar volume from year to year. There is no assurance that the overall dollar volume of the worldwide premium golf club market will grow, or that it will not decline, in the future. The Company's future club sales growth therefore may be limited unless there is growth in the worldwide premium golf club market.

Golf Balls. The Company only began selling its golf balls in February 2000 and therefore it does not have as significant of a market share as it does in the club business. Although opportunities exist for the acquisition of additional market share in the golf ball market, such market share is currently held by some well-established and well-financed competitors. There is no assurance that the Company will be able to increase its 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.

Golf Ball Costs

The cost of entering the golf ball business has been higher than the Company first anticipated. Much of these higher costs are attributable to higher than expected production costs as a result of yield and other ramp-up issues. 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. Although the Company believes it generally has resolved these issues, there is no assurance that the Company will be able to achieve the sales or production efficiencies necessary to make its golf ball business profitable. Until the golf ball business becomes

profitable, the Company's results of operations, cash flows and financial position will continue to be negatively affected.

Manufacturing Capacity

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

Dependence on Energy Resources

The Company's golf club and golf ball manufacturing facilities use, among other resources, significant quantities of electricity to operate. The State of California is currently experiencing a shortage of electricity. Depending on weather conditions, the shortage may worsen during the late summer months when electricity usage and demand for electricity are at their peak. Many companies in California have experienced periods of blackouts during which electricity was not available. The Company has experienced one blackout period to date, and expects that it will experience additional blackout periods. The Company has taken certain steps to provide uninterruptible power supplies for its key operations, including the ball and club operations, and believes that these measures will mitigate any impact resulting from future blackouts. However, if the blackout periods are significant and the Company's contingency plans are not effective, the Company could experience significant disruptions in its manufacturing operations because of blackout periods, which could have a material adverse effect upon the Company.

Furthermore, market and regulatory imperfections are also causing extreme volatility in electricity prices. The Company has tried to mitigate fluctuations in electricity prices and lower its costs by entering into long-term contracts at fixed rates. In April 2001, the Company entered into a new long-term contract for electricity. To obtain a more favorable price and to assure adequate supplies during times of peak loads, the Company agreed to purchase a significantly greater supply of electricity than it expects to use in its business. The Company expects to be able to re-sell some or all of this excess supply and thereby reduce the net price of the electricity it uses in its business. If the Company is unable to re-sell a significant portion of such excess supply at favorable rates, the net cost of the electricity used in the Company's business could increase significantly. Moreover, if the market price for electricity were to drop significantly during the term of the contract, and the Company was unable to revise its commitment, then the Company's costs for electricity could be higher than its competitors'. Either scenario could have a significant adverse effect upon the Company's results of operations. Furthermore, under current applicable accounting rules, the Company must each quarter recognize in earnings the change in the fair value of the electricity contract. Although the changes in the value of the contract result in non-cash charges, they could significantly affect the Company's reported earnings.

In addition to electricity, the Company also uses natural gas to run the golf club and golf ball manufacturing facilities. Until recently, there has been a shortage of natural gas which caused prices to increase significantly. Although the Company does not expect any interruptions in its supply of natural gas, if the prices continue to increase, such increased prices could have a significant adverse effect upon the Company's cost of goods sold and results of operations.

Dependence on Certain Suppliers and Materials

The Company is dependent on a limited number of suppliers for its clubheads and shafts, some of which are single-sourced. In addition, some of the Company's products require specifically developed manufacturing techniques and processes which make it difficult to identify and utilize alternative suppliers quickly. The Company believes that suitable clubheads and shafts could be obtained from other manufacturers in the event its regular suppliers are unable to provide components. However, any significant production delay or disruption caused by the inability of current suppliers to deliver or the transition to other suppliers could have a material adverse impact on the Company's results of operations. The Company is also single-sourced or dependent on a limited number of suppliers for the materials it uses to make its golf balls. Many of the materials, including the golf ball cover, 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. Any significant interruption in UPS services could have a material adverse effect upon the Company's ability to ship its products to its customers. If there were any such interruption in its services, there is no assurance that the Company could engage alternative suppliers to ship its products in a timely and cost-efficient manner. Any significant interruption in UPS Services could have a material adverse effect upon the Company.

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 such materials 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. New product introductions, price reductions and "close-outs" 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 or new product introductions by competitors will not negatively impact the Company's future sales.

Golf Balls. The premium golf ball business is also highly competitive, and may be becoming even more competitive. There are a number of well-established and well-financed competitors, including one competitor with an estimated market share in excess of 50% of the premium golf ball business. There are also several recent entrants into the golf ball business, including Nike and Taylor Made. Many of these competitors have introduced or will introduce golf ball designs that directly compete with the Company's products. Furthermore, as competition in this business increases, many of these competitors are discounting substantially the prices of their products. In order for its golf ball business to be successful, the Company will need to penetrate the market share held by existing competitors, while competing with the other new entrants, and must do so at prices that are profitable. There can be no assurance that the Company's golf balls will obtain the market acceptance necessary to be commercially successful.

Market Acceptance of Products

A golf manufacturer's ability to compete is in part dependent upon its ability to satisfy the various subjective requirements of golfers, including a golf club's and golf ball's look and "feel," and the level of acceptance that a golf club and ball has among professional and recreational golfers. The subjective preferences of golf club and ball purchasers may be subject to rapid and unanticipated changes. There can be

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no assurance as to how long the Company's golf clubs and 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

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 Company's new 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. For example, the Company's Rule 35® golf balls are premium golf balls and there are many lower priced non-premium golf balls sold by others. 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.

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 experienced some of these effects in 1999 with respect to golf clubs and could experience similar effects in future years as the Company from time to time introduces new golf club or golf ball products or misjudges demand.

It previously was the Company's practice to announce its new product line at the beginning of each calendar year. The Company recently departed from that practice and now announces its new product line in the fourth quarter to allow retailers to plan better. Such early announcements of new products could cause golfers, and therefore the Company's customers, to defer purchasing additional golf equipment until the Company's new products are available. Such deferments could have a material adverse effect upon sales of the Company's current products and/or result in close-out sales at reduced prices.

Conformance with the Rules of Golf

New golf club and golf ball products generally seek to satisfy the standards established by the United States Golf Association ("USGA") and the Royal and Ancient Golf Club of St. Andrews ("R&A") because these standards are generally followed by golfers within their respective jurisdictions. 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.

Currently, 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.” In 1998, the USGA adopted a so-called “spring-like effect test” that limits the coefficient of restitution (“COR”) of drivers. The R&A has announced that it does not believe that such a limitation is needed or in the best interests of the game of golf, and has not adopted such a test or other performance limitation on drivers.

Some countries, such as Japan and Canada, have local golf associations that exert some control over the game of golf within their jurisdictions. The Royal Canadian Golf Association (“RCGA”) has announced that it will generally follow the USGA with respect to equipment rules. So far, no other local organization within the R&A’s general jurisdiction has deviated from the R&A’s position with respect to equipment rules.

Currently, all of the Company’s products are believed to be “conforming” under the Rules of Golf as published by the R&A. In addition, all of the Company’s products with the exception of the Company’s ERC II (and ERC II Pro Series) Forged Titanium Driver are believed to be “conforming” under the Rules of

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Golf as published by the USGA and RCGA. Although the ERC II Drivers conform to all existing R&A equipment rules, and most existing USGA and RCGA equipment rules, they do not conform to the USGA’s so-called “spring-like effect” test protocol. There is no assurance that new designs 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. For example, if the R&A were to reverse its current position and rule that the ERC II Drivers are non-conforming under the Rules of Golf as published by the R&A, then the Company believes its sales of the ERC II Drivers in the Company’s international markets would be significantly adversely affected.

On October 18, 2000, the Company announced that it intended to sell its ERC II Forged Titanium Driver in the U.S. despite the fact that it has been ruled to be non-conforming by the USGA. To the Company’s knowledge, it is the first large, premium brand golf equipment company to sell non-conforming equipment in the U.S. By undertaking this approach, the Company hopes to expand participation in the game of golf in the United States — the source of more than half of the Company’s revenues — by making the game more enjoyable and accessible for more people, including those people who play the game primarily for fun, enjoyment and recreation.

While the Company believes that this is the best strategy for the Company and its shareholders, and one that is good for the game of golf as well, the strategy has proven to be risky. The USGA has vigorously and openly opposed the sale or use of the ERC II Driver. On December 8, 2000, the USGA announced that scores in rounds played with clubs that do not conform to USGA rules, such as the ERC II Forged Titanium Driver, may not be posted for USGA handicap purposes. That position has been reinforced by further announcements by the USGA. A significant number of U.S. retailers have declined to carry the ERC II Driver, and that number could grow. It also appears at this time that a significant number of U.S. golfers may decide that they do not wish to purchase a driver that may not be used in competitions in the U.S. played subject to USGA rules or that may not be used for handicap purposes. Retailer and/or consumer backlash against the introduction of a non-conforming product has hurt sales of ERC II Drivers in the U.S., and may injure sales of other, conforming products, or otherwise damage the brand. These negative effects will materially reduce U.S. sales of ERC II Drivers and other products in 2001 and in future years, and could even negatively affect in a material way the strength of the brand and the Company’s business overseas despite the fact that the ERC II Drivers fully conform with the R&A’s Rules. On the other hand, if the Company is correct in its belief that there are a large number of American golfers who do not play in tournaments subject to the USGA’s Rules and who are prepared to purchase an exceptional non-conforming driver for use in recreational play, and/or the Company’s strategy is successful over time in attracting more people to the game of golf in the U.S., then the beneficial effects could be significant.

Golf Professional Endorsements

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

Golf Clubs. Many professional golfers throughout the world use the Company’s golf clubs even though they are not contractually bound to do so and do not grant any endorsement to the Company. The Company previously created cash pools that rewarded such usage. In 2001, the Company discontinued these pools, as it believes it is better to allocate these resources to other tour programs. In addition, many other companies are aggressively seeking the patronage of these professionals, and are offering many inducements, including specially designed products and significant cash rewards. In the past, the Company has experienced an exceptional level of club usage on the world’s major professional tours, and the Company has heavily advertised that fact. The Company’s lack of cash inducements for non-staff golfers could result in a decrease

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in usage of the Company’s clubs by professional golfers. While it is not clear to what extent professional usage contributes to retail sales, it is possible that a decline in the level of professional usage of the Company’s products could have a material adverse effect on the Company’s sales and business.

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

Intellectual Property and Proprietary Rights

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

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

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

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

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Seasonality and Adverse Weather Conditions

In the golf club and golf ball industries, sales to retailers are generally seasonal due to lower demand in the retail market during cold weather months. The Company's golf club business has generally experienced these seasonal fluctuations and the Company expects this to continue generally for both its golf club and golf ball businesses. Furthermore, unusual or severe 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. The Company believes that overall in the Company's principal markets during the first half of 2001 there was unusually adverse weather, which may have affected retail sales of the Company's products and made the Company's customers reluctant to re-order in quantity. If such reluctance were to continue, the Company's sales for the remainder of the year would be materially adversely affected.

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 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. While the Company believes that it has sufficient reserves for warranty claims, there can be no assurance that these reserves will be sufficient if the Company were to experience an unusually high incidence of breakage or other product problems.

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. For example, the Company experienced a decline in sales in the U.S. in 1998, and believes the decline was due, in part, to a decline in "gray market" shipments to Asia and Europe. 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 Distribution and Foreign Currency Fluctuations

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 has reorganized a substantial portion of its international operations, including the acquisition of distribution rights in certain key countries in Europe, Asia and North America. These efforts have resulted and will continue to result in additional investments in inventory, accounts receivable, employees, corporate infrastructure and facilities. The operation of foreign distribution in the Company's international markets will continue to require the dedication of management and other Company resources.

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Additionally, the Company's operation of foreign distribution increases the Company's exposure to fluctuations in exchange rates for various foreign currencies which could result in losses and, in turn, could adversely impact the Company's results of operations. The Company's results for the first half of 2001 were significantly affected negatively by the strength of the U.S. dollar versus other foreign currencies as compared to the prior year. Continued weakness in such foreign currencies during the remainder of 2001 would have a significant negative effect upon the Company.

The Company tries to mitigate its exposure to foreign currency fluctuations by engaging in certain hedging activities. The Company's hedges reduce, but do not eliminate, the adverse affects of such foreign currency fluctuations on the Company's results of operations. For example, the Company successfully entered into hedges for certain transactions it anticipated to occur during the first half of 2001. These hedging activities mitigated the negative effects of foreign currency fluctuations on the hedged transactions that occurred during such period. However, despite the Company's hedging activities, as compared to the first half of 2000, fluctuations in foreign currency exchange rates adversely impacted first half 2001 net sales by approximately $22.1 million, as measured by applying first half 2000 exchange rates to first half 2001 net sales. If it were not for the Company's hedging activities, the adverse foreign currency effects would have been greater. There can be no assurance to what extent the Company might be able to mitigate its future exposure to fluctuations in foreign currency through its management of foreign currency transactions. *(See below Item 3, Quantitative and Qualitative Disclosures about Market Risk — Foreign Currency Fluctuations).*

Credit Risk

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

Information Systems

All of the Company's major operations, including manufacturing, distribution, sales and accounting, are dependent upon the Company's information computer systems. Any significant disruption in the operation of such systems could 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.

Many of the countries in which the Company sells its products are Member States of the Economic and Monetary Union ("EMU"). Beginning January 1, 1999, Member States of the EMU have the option of trading in either their local currencies or the euro, the official currency of EMU participating Member States. Parties are free to choose the unit they prefer in contractual relationships until 2002 when their local currencies will be phased out. The current version of the Company's enterprise-wide business system currently supports single transactions denominated in euro. At the end of 2001, the Company expects to convert the customers who are in the EMU groups from their national currency to the euro. Until such time as the conversion has occurred transactions denominated in euro will be processed manually. To date, the Company has not experienced, and does not anticipate in the near future, a large demand from its customers to transact in euro. Additionally, the Company does not believe that it will incur material costs specifically associated with manually processing data or preparing its business systems to operate in either the transitional period or beyond. However, there can be no assurance that the conversion of EMU Member States to euro will not have a material adverse effect on the Company and its operations.

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

The Company uses derivative financial instruments for hedging purposes and to manage its exposure to changes in foreign exchange rates and electricity prices. Transactions involving these financial instruments are with credit-worthy firms and major exchanges. The use of these instruments exposes the Company to market and credit risk which may at times be concentrated with certain counterparties, although counterparty nonperformance is not anticipated. The Company is also exposed to interest rate risk from its credit facilities and accounts receivable securitization arrangement. *(See above Certain Factors Affecting Callaway Golf Company — International Distribution and Foreign Currency Fluctuations).*

Foreign Currency Fluctuations

The Company is exposed to the impact of foreign currency fluctuations due to its international operations and certain export sales. The Company is exposed to both transactional currency/ functional currency and functional currency/ reporting currency exchange rate risks. In the normal course of business, the Company employs established policies and procedures to manage its exposure to fluctuations in the value of foreign currencies. Pursuant to its foreign exchange hedging policy, the Company may use forward foreign currency exchange rate contracts to hedge certain firm commitments and the related receivables and payables. During the six months ended June 30, 2001, the Company entered into such contracts on behalf of two of its wholly-owned subsidiaries, Callaway Golf Europe Ltd. and Callaway Golf K.K. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. These foreign exchange contracts generally do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the transactions being hedged, and the Company does not engage in hedging contracts which exceed the amounts of these transactions.

Also pursuant to its foreign exchange hedging policy, the Company may hedge anticipated transactions denominated in foreign currencies using forward foreign currency exchange rate contracts and put or call options. Foreign currency derivatives are used only to the extent considered necessary to meet the Company's objectives. The Company does not enter into forward contracts for speculative purposes. The Company's foreign currency exposures include most European currencies, Japanese yen, Canadian dollars, Korean won, Australian dollars, and New Zealand dollars.

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, 2001 through its derivative financial instruments.

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

The estimated maximum one-day loss in earnings from the Company's foreign-currency derivative financial instruments, calculated using the sensitivity analysis model described above, is $3.9 million at June 30, 2001. 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

The Company entered into a derivative commodity instrument to manage its exposure to the impact of electricity price fluctuations. The contract is a long-term fixed price physical delivery contract, which allows the Company greater predictability of energy costs and security in the supply of electricity in a volatile California energy market. This derivative commodity instrument is carried at fair value pursuant to requirements of SFAS No. 133. Therefore, fluctuations in the market price of electricity will directly affect the

carrying value of the contract. At June 30, 2001, the change in fair value of the outstanding derivative commodity instrument that would be expected from a ten percent adverse price change is $3.0 million. The fair value of the derivative commodity instrument is estimated based on present value adjusted quoted market prices as further discussed in Note 10 to the Consolidated Condensed Financial Statements. Price changes were calculated by assuming a ten percent adverse price change regardless of term or historical relationship between the contract price of the instrument and the underlying commodity price.

Interest Rate Fluctuations

Additionally, the Company is exposed to interest rate risk from its Amended Credit Agreement, Japanese credit facilities and Accounts Receivable Facility (see Notes 4 and 5 to the Company's Consolidated Condensed Financial Statements) which are indexed to the LIBOR, TIBOR and Redwood Receivables Corporation Commercial Paper Rate. No amounts were advanced or outstanding under these facilities at June 30, 2001.

Notes 4 and 5 to the Consolidated Condensed Financial Statements outline the principal amounts, if any, and other terms required to evaluate the expected cash flows and sensitivity to interest rate changes.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

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

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

On July 24, 2000, Bridgestone Sports Co., Ltd. ("Bridgestone") filed a complaint for patent infringement in the United States District Court for the Northern District of Georgia, Civil Action No. 100-CV-1871, against Callaway Golf Company, Callaway Golf Ball Company (collectively "Callaway Golf"), and a golf retailer located in Georgia (the "U.S. Action"). Bridgestone alleges in the U.S. Action that the manufacture and sale of the Company's Rule 35® golf ball infringes four U.S. golf ball patents owned by Bridgestone. Bridgestone is seeking unspecified damages and injunctive relief. On September 12, 2000, Callaway Golf answered the Complaint, and asserted affirmative counterclaims against Bridgestone seeking a judicial declaration that Callaway Golf does not infringe the

Bridgestone patents, that the patents are invalid, and that Bridgestone engaged in inequitable conduct in the United States Patent and Trademark Office. On October 13, 2000, Bridgestone and the retailer defendant entered into a consent judgment discontinuing the action against the retailer. The parties are engaged in discovery. No trial date has been set by the District Court.

On December 14, 2000, Bridgestone filed an action in the Tokyo, Japan District Court asserting patent infringement against Callaway Golf's wholly-owned subsidiary, Callaway Golf K.K., based on its sale of Rule 35® Softfeel™ golf balls in Japan (the "Japan Action"). Only one of the Bridgestone patents at issue in the U.S. Action has issued in Japan. Callaway Golf has denied the claims asserted in the Japan Action and has filed an invalidity proceeding with the Japanese Patent Office to invalidate the Bridgestone Patent.

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

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims, including the matters specifically noted above. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is

unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of June 30, 2001. However, management believes at this time that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

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

None

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

None

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

On May 2, 2001, the Company held its 2001 Annual Meeting of Shareholders. Ely Callaway, William C. Baker, Vernon E. Jordan, Jr., Yotaro Kobayashi, Aulana L. Peters, Richard L. Rosenfield and Charles J. Yash were elected to the Board of Directors.

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

Name	Votes For	Votes Withheld
Ely Callaway	65,632,902	1,607,833
William C. Baker	65,628,716	1,612,019
Vernon E. Jordan, Jr.	65,399,144	1,841,591
Yotaro Kobayashi	65,629,681	1,611,054
Aulana L. Peters	65,003,016	2,237,719
Richard L. Rosenfield	65,634,618	1,606,117
Charles J. Yash	65,612,409	1,628,326

On May 31, 2001, Mr. Yash left the Company and in connection with his departure resigned from the Board of Directors. Mrs. Peters resigned from the Board of Directors on June 6, 2001. Mr. Callaway passed away on July 5, 2001. Ronald A. Drapeau, who is Mr. Callaway's successor as President and Chief Executive Officer of the Company, was appointed to the Board of Directors effective as of June 7, 2001. Also effective as of June 7, 2001, Ronald S. Beard was appointed to the Company's Board of Directors.

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 (the "Commission") on July 1, 1999 (file no. 1-10962).
3.2	Bylaws, incorporated herein by this reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, as filed with the Commission on July 1, 1999 (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).
10.50	Master Energy Purchase and Sale Agreement, and related Confirmation Letter, each entered into as of April 12, 2001, by and between Enron Energy Services, Inc. and the Company.(†)
10.51	Resignation and Consulting Agreement with Mutual Releases, entered into as of May 31, 2001, by and between the Company and Charles J. Yash.(†)
10.52	Release by Charles J. Yash effective May 31, 2001.(†)
10.53	Executive Officer Employment Agreement, entered into as of June 1, 2001, by and between the Company and Robert Penicka.(†)

(†) Included with this Report.

b. *Reports on Form 8-K*

Form 8-K, dated May 15, 2001, reporting the issuance of a press release of even date therewith, which press release was captioned, "Ron Drapeau Appointed President and CEO of Callaway Golf as Ely Callaway Announces Retirement; Founder Remains as Chairman of the Board."

Form 8-K, dated June 6, 2001, reporting the issuance of a press release of even date therewith, which press release was captioned, "Callaway Golf Announces Resignation of Chuck Yash." The Form 8-K also reported the issuance of separate press releases dated June 8, 2001 captioned, "Callaway Golf See Revised Revenue Growth of 5% in First Half of 2001" and "Callaway Golf Appoints Two New Directors."

Form 8-K, dated June 15, 2001, reporting that the Company notified PricewaterhouseCoopers LLP ("PwC") that the Board of Directors, upon recommendation of the Audit Committee, approved the dismissal of PwC as the Company's independent auditors effective June 18, 2001. The Current Report on Form 8-K also reported that the Board of Directors approved the appointment effective as of June 18, 2001 of the firm Arthur Andersen LLP to serve as the Company's independent auditors for fiscal year 2001.

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SIGNATURES

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

Date: August 14, 2001

CALLAWAY GOLF COMPANY

By: /s/ BRADLEY J. HOLIDAY

Bradley J. Holiday
Executive Vice President and
Chief Financial Officer

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EXHIBIT INDEX

Exhibit	Description
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(†) Included with this Report.

EXHIBIT 10.50

MASTER ENERGY PURCHASE AND SALE AGREEMENT

This Master Energy Purchase and Sale Agreement (this "Master Agreement" and together with all Transactions, collectively, the "Agreement") is entered into effective as of the 12th day of April, 2001 (the "Effective Date") by and between Enron Energy Services, Inc., a Delaware corporation ("EESI"), and Callaway Golf Company, a Delaware corporation ("Customer"). Each of EESI and Customer may also be referred to individually as "Party" or collectively as "Parties." The Party selling Energy pursuant to a Transaction shall be referred to as the "Seller," and the Party purchasing Energy pursuant to a Transaction shall be referred to as the "Buyer." The definitions set forth in Appendix "1" shall apply to this Agreement.

SECTION 1.
SCOPE OF AGREEMENT

1.1. SCOPE OF AGREEMENT. From time to time, the Parties may, but shall not be obligated to, enter into Transactions for the purchase or sale of Energy hereunder. Each Transaction shall be effectuated and evidenced in accordance with this Master Agreement and shall constitute a part of this Master Agreement. The Parties are relying upon the fact that all Transactions, together with this Master Agreement, shall constitute a single integrated agreement, and that the Parties would not otherwise enter into any Transaction. Any conflict between this Master Agreement and a Transaction shall be resolved in favor the Transaction. This Master Agreement shall govern all Transactions between the Parties from and after the Effective Date unless expressly stated otherwise and shall govern all transactions between the Parties entered into prior to the date hereof that relate to the purchase and sale of Energy.

1.2. TRANSACTION PROCEDURES. Each Transaction shall be effectuated and evidenced by a written Confirmation Letter executed by the Parties. The specific terms to be established by the Parties for each Transaction shall include the identity of the Buyer and Seller, the Period of Delivery, the Contract Price, the Delivery Point, the Contract Quantity, whether the Transaction is Firm or Non-Firm and such other terms as the Parties shall agree upon.

1.3. TERM OF AGREEMENT. The term of this Master Agreement shall commence on the Effective Date and shall remain in effect for a period of five (5) years from the Effective Date, and shall thereafter remain in effect until terminated by either Party on 30 days prior written notice ("Master Term"); provided, however, that this Master Agreement shall remain in effect with respect to any Transaction(s) entered into prior to the end of the Master Term until both Parties have fulfilled all their obligations with respect to such Transaction(s).

SECTION 2.
REPRESENTATIONS AND WARRANTIES

On the Effective Date and on the date of entering into each Transaction, each Party represents and warrants to the other Party that: (i) it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation and is qualified to conduct its business in each jurisdiction in which a Transaction will be performed by it, (ii) it has all regulatory authorizations necessary for it to legally perform its obligations under this Master Agreement and each Transaction, (iii) the execution, delivery and performance of this Master Agreement and each Transaction are within its powers, have been duly authorized by all necessary action and do not violate any of the terms and conditions in its governing documents, any contracts to which it is a party or any Law applicable to it, (iv) this Master Agreement and each Transaction when entered into in accordance with this Master Agreement constitutes its legally valid and binding obligation enforceable against it in accordance with its terms, subject to any Equitable Defenses, (v) there are no Bankruptcy Proceedings pending or being contemplated by it or, to its knowledge, threatened against it, (vi) there are no Legal Proceedings that materially adversely affect its ability to perform its obligations under this Master Agreement and each Transaction, and (vii) it has knowledge and experience in financial matters and the electric industry that enable it to evaluate the merits and risks of entering into this Master Agreement and each Transaction.

SECTION 3.
OBLIGATIONS AND DELIVERIES

3.1. SELLER'S AND BUYER'S OBLIGATIONS. With respect to each Transaction and subject to the terms of this Master Agreement, Seller shall sell and deliver, or cause to be delivered, and Buyer shall purchase and receive, or cause to be received, at the Delivery Point the Contract Quantity, and Buyer shall pay Seller the Contract Price. Seller shall be responsible for any costs or charges imposed on or associated with the delivery of the Contract Quantity, including control area services, inadvertent energy flows, transmission losses and loss charges relating to the transmission of the Contract Quantity, up to the Delivery Point. Buyer shall be responsible for any costs or charges imposed on or associated with the Contract Quantity, including control area services, inadvertent energy flows, transmission losses and loss charges relating to the transmission of the Contract Quantity, at and from the Delivery Point.

3.2. TRANSMISSION AND SCHEDULING. Seller shall arrange and be responsible for transmission service to the Delivery Point and shall Schedule or arrange for Scheduling services with its Transmission Providers to deliver the Energy to the Delivery Point. Buyer shall arrange and be responsible for transmission service at and from the Delivery Point and shall Schedule or arrange for Scheduling services with its Transmission Providers to receive the Energy at the Delivery Point. Each Party shall designate authorized representatives or agents to effect the Scheduling of the Contract Quantity of Energy.

3.3. TITLE, RISK OF LOSS AND INDEMNITY. As between the Parties, Seller shall be deemed to be in exclusive control (and responsible for any damages or injury caused thereby) of the Energy prior to the Delivery Point, and Buyer shall be deemed to be in exclusive control (and responsible for any damages or injury caused thereby) of the Energy at and from the Delivery Point. Seller warrants that it will deliver to Buyer the Contract Quantity free and clear of all liens, claims and encumbrances arising prior to the Delivery Point. Title to and risk of loss related to the Contract Quantity shall transfer from Seller to Buyer at the Delivery Point. Seller and Buyer shall each indemnify, defend and hold harmless the other Party from any Claims arising from any act or incident occurring when title to the Energy is vested in the indemnifying Party.

3.4. FORCE MAJEURE. If either Party is rendered unable by Force Majeure to carry out, in whole or in part, its obligations under a Transaction and such Party gives notice and full details of the event to the other Party as soon as practicable after the occurrence of the event, then during the pendency of such Force Majeure but for no longer period, the obligations of the Party affected by the event (other than the obligation to make payments then due or becoming due with respect to performance prior to the event) shall be suspended to the extent required. The party affected by the Force Majeure shall remedy the Force Majeure with all reasonable dispatch; provided, however, that this provision shall not require Seller to deliver, or Buyer to receive, Energy at points other than the Delivery Point.

3.4.1. FORCE MAJEURE SERVICE. In the case of a Force Majeure event, where EESI is the Seller, EESI will use commercially reasonable efforts to procure and provide to Customer the Contract Quantity under each affected Transaction from alternate sources and/or transportation routes or other available means ("Force Majeure Service"); provided that EESI will perform such Force Majeure Service only with Customer's consent, and Customer will bear all incremental costs associated with such Force Majeure Service, which incremental costs will be separate from and in addition to any amounts due from Customer under the applicable Transaction.

3.5. BUYER'S COVER REMEDY FOR SELLER'S FAILURE TO DELIVER IN FIRM TRANSACTIONS. Unless excused by Force Majeure or Buyer's failure to perform, if Seller fails to Schedule and/or deliver all or part of the Contract Quantity pursuant to a Firm Transaction, Seller shall pay Buyer an amount for each unit of Energy in such deficiency equal to the positive difference, if any, obtained by subtracting the Contract Price from the Replacement Price. "Replacement Price" means the price at which Buyer, acting in a commercially reasonable manner, purchases substitute units of Energy not delivered by Seller (plus costs reasonably incurred by Buyer in purchasing substitute units of Energy, including additional Transmission Charges and Penalties (to the extent not duplicative of other charges incurred for Energy), if any, incurred by Buyer) or, absent a purchase, the market price for such quantity at such Delivery Point as determined by Buyer in a commercially reasonable manner. Amounts calculated pursuant to this Section 3.5 shall be subject to Section 5.2. and amounts payable pursuant to this Section 3.5 shall be payable on or before three (3) Business Days after receipt of an invoice from Buyer.

3.6 SELLER'S COVER REMEDY FOR BUYER'S FAILURE TO RECEIVE IN FIRM TRANSACTIONS. Unless excused by Force Majeure or Seller's failure to perform, if Buyer fails to Schedule and/or receive all or part of the Contract Quantity pursuant to a Firm Transaction, Buyer shall pay Seller an amount for each unit of Energy in such deficiency equal to the sum of (1) the positive difference, if any, obtained by subtracting the Sales Price from the Contract Price, and (2) additional costs reasonably incurred by Seller in reselling such Energy not received by Buyer, including additional Transmission Charges, if any. "Sales Price" means the price per unit of Energy at which Seller, acting in a commercially reasonable manner, resells or would be able to resell (if at all), the Energy not received by Buyer, including additional Transmission Charges and Penalties (to the extent not duplicative of other charges incurred for Energy), if any, incurred by Seller. Amounts calculated pursuant to this Section 3.6 shall be subject to Section 5.2 and amounts payable pursuant to this Section 3.6 shall be payable on or before three (3) Business Days after receipt of an invoice from Seller.

3.7 FAILURE TO DELIVER/RECEIVE IN NON-FIRM TRANSACTIONS. A Party may be excused from delivering or receiving the Contract Quantity, in whole or in part, in a Non-Firm Transaction for any reason without liability unless otherwise provided in a Confirmation Letter.

SECTION 4.
DEFAULTS AND REMEDIES

4.1. EVENTS OF DEFAULT. An "Event of Default" shall mean with respect to a Party ("Defaulting Party"):

(a) the failure by the Defaulting Party to make, when due, any payment required pursuant to this Agreement if such failure is not remedied within three (3) Business Days after written notice of such failure is given to the Defaulting Party by the other Party ("Non-Defaulting Party") and provided the payment is not the subject of a good faith dispute as described in Section 6; or

(b) any representation or warranty made by the Defaulting Party herein shall at any time prove to be false or misleading in any material respect; or

(c) the failure by the Defaulting Party to perform any covenant set forth in this Agreement (other than the events that are otherwise specifically covered in this Section 4.1 as a separate Event of Default or its obligations to deliver or receive Energy a remedy for which is provided in Section 3), and such failure is not excused by Force Majeure or cured within five (5) Business Days after written notice thereof to the Defaulting Party; or

(d) the Defaulting Party shall be subject to a Bankruptcy Proceeding; or

(e) breach or default of the Defaulting Party or any of its subsidiaries with respect to any other term of any indebtedness, lease or other obligation in an amount in excess of $1,000,000, if the effect of such failure, default or breach is to permit the holder of the indebtedness, lease or other obligation, with the passage of time, to declare such to be due prior to its stated maturity.

4.2. EARLY TERMINATION DATE. If an Event of Default occurs with respect to a Defaulting Party at any time during the Master Term, the Non-Defaulting Party may, in its sole discretion, for so long as the Event of Default is continuing.

(a) by no more than twenty (20) days notice to the Defaulting Party, designate a day no earlier than the day such notice is effective as an early termination date ("Early Termination Date") on which all Transactions shall terminate (individually a "Terminated Transaction" and collectively the "Terminated Transactions"); and

(b) withhold any payments due in respect of the Terminated Transactions; provided, however, upon the occurrence of any Event of Default listed in item (d) of Section 4.1 as it may apply to any Party, all Transactions and this Agreement in respect thereof shall automatically terminate, without notice, and without any other action by either Party as if an Early Termination Date had been declared immediately prior to such event.

4.3. TERMINATION PAYMENT CALCULATION.

(a) If an Early Termination Date has been designated, the Non-Defaulting Party shall in good faith calculate its Gains, Losses and Costs resulting from the termination of the Terminated Transactions.

As used herein with respect to each Party:

(1) "GAINS" means, with respect to a Party, an amount equal to the present value of the economic benefit (exclusive of Costs), if any, to it resulting from the termination of its obligations with respect to a Terminated Transaction, determined in a commercially reasonable manner;

(ii) "LOSSES" means, with respect to a Party, an amount equal to the present value of the economic loss (exclusive of Costs), if any, to it resulting from the termination of its obligations with respect to a Terminated Transaction, determined in a commercially reasonable manner; and

(iii) "COSTS" means, with respect to a Party, brokerage fees, commissions and other similar transaction costs and expenses reasonably incurred by such Party either in terminating any arrangement pursuant to which it has hedged its obligations or entering into new arrangements which replace a Terminated Transaction, and attorneys' fees, if any, incurred in connection with enforcing its rights under this Agreement.

(b) The Gains, Losses and Costs shall be determined by comparing the value of the remaining term, Contract Quantities and Contract Prices under each Terminated Transaction had it not been terminated to the equivalent quantities and relevant market prices for the remaining term either quoted by a bona fide third-party offer or which are reasonably expected to be available in the market under a replacement contract for each Terminated Transaction.

(c) To ascertain the market prices of a replacement contract, the Non-Defaulting Party may consider, among other valuations, any or all of the settlement prices of NYMEX Power futures contracts, quotations from leading dealers in energy swap contracts and other bona fide third party offers, all adjusted for the length of the remaining term and differences in transmission.

(d) It is expressly agreed that a Party shall not be required to enter into replacement transactions in order to determine the Termination Payment (defined below).

(e) The Non-Defaulting Party shall aggregate such Gains, Losses and Costs with respect to all Transactions into a single net amount ("Termination Payment") and notify the Defaulting Party of such amount.

4.4. OBLIGATION TO PAY TERMINATION PAYMENT.

(a) If the Non-Defaulting Party's aggregate Losses and Costs exceed its aggregate Gains, the Defaulting Party shall, within five (5) Business Days of receipt of such notice, pay such net amount to the Non-Defaulting Party, which amount shall bear interest at the Interest Rate from the Early Termination Date until paid. If the Non-Defaulting Party's aggregate Gains exceed its aggregate Losses and Costs, there shall be no Early Termination Payment.

(b) If the Defaulting Party disagrees with the calculation of the Termination Payment, the issue shall be submitted to arbitration in accordance with the arbitration procedures set forth in Section 8.8 and the resulting Termination Payment shall be due and payable within three (3) Business Days after the award.

(c) Notwithstanding any other provision of this Agreement, if Buyer or Seller fails to pay to the other Party any amounts when due, the aggrieved Party shall have the right to (i) suspend performance under any or all Transactions until such amounts plus interest at the Interest Rate have been paid and/or (ii) exercise any remedy available at law or in equity to enforce payment of such amount plus interest at the Interest Rate; provided, however, if the non-paying Party, in good faith, shall dispute the amount of any such billing or part thereof and shall pay such amounts as it concedes to be correct, no suspension shall be permitted.

4.5 OTHER EVENTS. If Buyer is regulated by a federal, state or local regulatory body, and such body disallows all or any portion of any costs incurred or yet to be incurred by Buyer under any provision of this Agreement, such action shall not operate to excuse Buyer from performance of any obligation nor shall such action give rise to any right of Buyer to any refund or retroactive adjustment of the Contract Price provided in any Transaction. Notwithstanding the foregoing, if a Party's (the "Regulated Party") activities hereunder become subject to regulation of any kind whatsoever under any law to a greater or different extent than that existing on the Effective Date and such regulation renders this Agreement illegal or unenforceable, or, as to EESI, such regulation has the effect of limiting the price that EESI can charge for Energy under a Transaction or otherwise materially adversely affects EESI's ability to receive the economic benefits of a Transaction, the Regulated Party shall at such time have the right to declare an Early Termination Date in accordance with the provisions hereof, provided, notwithstanding the rights of the Parties to declare an Early Termination Date as above stated, the Regulated Party shall be liable for payment of the Termination Payment as provided in Section 4.3 as calculated by the non-Regulated Party.

SECTION 5.
LIMITATIONS; DUTY TO MITIGATE

5.1. LIMITATIONS OF REMEDIES, LIABILITY AND DAMAGES. THE PARTIES CONFIRM THAT THE EXPRESS REMEDIES AND MEASURES OF DAMAGES PROVIDED IN THIS AGREEMENT SATISFY THE ESSENTIAL PURPOSES HEREOF. FOR BREACH OF ANY PROVISION FOR WHICH AN EXPRESS REMEDY OR MEASURE OF DAMAGES IS PROVIDED, SUCH EXPRESS REMEDY OR MEASURE OF DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY, THE OBLIGOR'S LIABILITY SHALL BE LIMITED AS SET FORTH IN SUCH PROVISION AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY HEREIN PROVIDED, THE OBLIGOR'S LIABILITY SHALL BE LIMITED TO DIRECT ACTUAL DAMAGES ONLY, SUCH DIRECT ACTUAL DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. UNLESS EXPRESSLY HEREIN PROVIDED, NEITHER PARTY SHALL BE LIABLE FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, LOST PROFITS OR OTHER BUSINESS INTERRUPTION DAMAGES, BY STATUTE, IN TORT OR CONTRACT, UNDER ANY INDEMNITY PROVISION OR OTHERWISE. IT IS THE INTENT OF THE PARTIES THAT THE LIMITATIONS HEREIN IMPOSED ON REMEDIES AND THE MEASURE OF DAMAGES BE WITHOUT REGARD TO THE CAUSE OR CAUSES RELATED THERETO, INCLUDING THE NEGLIGENCE OF ANY PARTY, WHETHER SUCH NEGLIGENCE BE SOLE, JOINT OR CONCURRENT, OR ACTIVE OR PASSIVE. TO THE EXTENT ANY DAMAGES REQUIRED TO BE PAID HEREUNDER ARE LIQUIDATED, THE PARTIES ACKNOWLEDGE THAT THE DAMAGES ARE DIFFICULT OR IMPOSSIBLE TO DETERMINE, OTHERWISE OBTAINING AN ADEQUATE REMEDY IS INCONVENIENT AND THE LIQUIDATED DAMAGES CONSTITUTE A REASONABLE APPROXIMATION OF THE HARM OR LOSS.

5.2 DUTY TO MITIGATE. Each Party agrees that it has a duty to mitigate damages and covenants that it will use commercially reasonable efforts to minimize any damages it may incur as a result of the other Party's performance or non-performance of this Agreement.

5.3 UCC. Except as otherwise provided for herein the provisions of the Uniform Commercial Code ("UCC") of the state whose laws shall govern this Agreement shall be deemed to apply to all Transactions and Energy shall be deemed to be a "good" for purposes of the UCC. EXCEPT AS EXPRESSLY SET FORTH HEREIN, SELLER EXPRESSLY NEGATES ANY OTHER REPRESENTATION OR WARRANTY, WRITTEN OR ORAL, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, ANY REPRESENTATION OR WARRANTY WITH RESPECT TO CONFORMITY TO MODELS OR SAMPLES, MERCHANTABILITY, OR FITNESS FOR ANY PARTICULAR PURPOSE.

SECTION 6.
BILLING; PAYMENT

6.1. BILLING AND PAYMENT. Seller shall render to Buyer (by regular mail, facsimile or other acceptable means pursuant to Section 8.3) for each calendar month during which purchases/sales are made, a statement setting forth the total quantity of Energy that was Scheduled or that Buyer was obligated to purchase and any other charges due

Seller, including payments or credits between the Parties pursuant to Section 3.5 and Section 3.6, under this Agreement during the preceding month and the amounts due to Seller from Buyer therefor. Billing and Payment will be based on Scheduled hourly quantities. On or before five (5) days after receipt of Seller's statement or if such day is not a Business Day, the immediately following Business Day, Buyer shall render, by wire transfer, the amount set forth on such statement to the payment address provided in Exhibit "A". Overdue payments shall accrue interest from, and including, the due date to, but excluding, the date of payment at the Interest Rate. If Buyer, in good faith, disputes a statement, Buyer shall provide a written explanation of the basis for the dispute and pay the portion of such statement conceded to be correct no later than the due date. If any amount disputed by Buyer is determined to be due to Seller, it shall be paid within ten (10) days of such determination, along with interest accrued at the Interest Rate until the date paid.

6.2 NETTING/SETOFF. If Buyer and Seller are each required to pay an amount in the same month, then such amounts with respect to each Party may be aggregated, and the Parties may discharge their obligations to pay through netting, in which case the Party, if any, owing the greater aggregate amount may pay to the other Party the difference between the amounts owed. Each Party reserves to itself all rights, setoffs, counterclaims and other remedies and defenses consistent with Section 5 (to the extent not expressly herein waived or denied) which such Party has or may be entitled to arising from or out of this Agreement. All outstanding Transactions and the obligations to make payment in connection therewith or under this Agreement or any other agreement between the Parties may be offset against each other, set off or recouped therefrom.

6.3. AUDIT. Each Party (and its representative(s)) has the right, at its sole expense and during normal working hours, to examine the records of the other Party to the extent reasonably necessary to verify the accuracy of any statement, charge or computation made pursuant to this Agreement. If requested, a Party shall provide to the other Party statements evidencing the quantities of Energy delivered at the Delivery Point. If any such examination reveals any inaccuracy in any statement, the necessary adjustments in such statement and the payments thereof will be promptly made and shall bear interest calculated at the Interest Rate from the date the overpayment or underpayment was made until paid; provided, however, that no adjustment for any statement or payment will be made unless objection to the accuracy thereof was made prior to the lapse of two years from the rendition thereof; and provided further that this agreement will survive any termination of the Agreement for a period of two years from the date of such termination for the purpose of such statement and payment objections. If any adjustment owed by a Party determined pursuant to this provision is in excess of $10,000, the audited Party will be responsible for the auditing Party's expenses, up to a maximum of $5,000. Further, the Parties agree that each may audit the other a maximum of one time per year during the Master Term, or any extension thereof.

SECTION 7.
TAXES

7.1 TAXES. The Contract Price shall include full reimbursement for, and Seller is liable for and shall pay, or cause to be paid, or reimburse Buyer if Buyer has paid, all Taxes applicable to a Transaction arising prior to the Delivery Point. If Buyer is required to remit such Tax, the amount shall be deducted from any sums due to Seller. Seller shall indemnify, defend and hold harmless Buyer from any Claims for such Taxes. The Contract Price does not include reimbursement for, and buyer is liable for and shall pay, cause to be paid, or reimburse Seller if Seller has paid, all Taxes applicable to a Transaction arising at and from the Delivery Point, including any Taxes imposed or collected by a taxing authority with jurisdiction over Buyer. Buyer shall indemnify, defend and hold harmless Seller from any Claims for such Taxes. Either Party, upon written request of the other, shall provide a certificate of exemption or other reasonably satisfactory evidence of exemption if either Party is exempt from taxes, and shall use reasonable efforts to obtain and cooperate with obtaining any exemption from or reduction of any Tax. Each Party shall use reasonable efforts to administer this Agreement and implement the provisions in accordance with the intent to minimize Taxes.

7.2. NEW TAXES. If (i) a New Tax is imposed and (ii) Customer or EESI would be responsible for paying such New Tax with respect to the Transactions, the Party responsible for the New Tax ("Affected Party") shall be entitled to declare an Early Termination Date with respect to those Transactions affected by the New Tax ("Affected Transactions") in accordance with the provisions of this Agreement subject to the following conditions:

(a) the Affected Party must give the other Party ("Non-Affected Party") at least thirty (30) days prior written notice of its intent to declare an Early Termination Date (which notice shall also include the additional information described in the last sentence of this Section 7.2), and prior to the proposed Early Termination Date, Customer and EESI shall attempt to reach a mutual agreement as to which Party will pay the New Tax, (b) if a mutual agreement is not reached within thirty (30) days after the Affected Party provides the notice provided in subsection (a) above, the Early Termination Date shall take effect and all Affected Transactions shall be terminated and be subject to the same Early Termination Date, (c) the Early Termination Date shall be effected as if an Event of Default had occurred and EESI shall calculate in a commercially reasonable manner its net Loss (amount of Losses and Costs after netting Gains), if any, resulting from the termination of all Affected Transactions as if it were the "Non-Defaulting Party" under Section 4 hereof and provided further that EESI's Gains and Losses shall be determined without taking into effect the impact of the New Taxes, and (d) Customer shall pay to EESI the amount of the net Loss calculated in subsection (c) above in accordance with the provisions of Section 4.4(a). In the notice described in subsection (a) above the Affected Party will include a calculation, in reasonable detail, estimating the notional value of the amount payable under subsection (c) above, the Parties acknowledge that such calculation shall be merely a good faith estimate of the amount payable and a final and definitive calculation of the amount due will be made on or before the Early Termination Date.

SECTION 8.
MISCELLANEOUS

8.1. ASSIGNMENT. Neither Party shall assign this Agreement or its rights hereunder without the prior written consent of the other Party, which consent may be withheld in its sole discretion; provided, however, either Party may, without the consent of (but with notice to) the other Party (and without relieving itself from liability hereunder), (i) transfer, sell, pledge, encumber or assign this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements, (ii) transfer or assign this Agreement to an Affiliate of such Party, or (iii) transfer or assign this Agreement to any person or entity succeeding to all or substantially all of the assets of such Party; provided, however, that in each such case, any such assignee shall agree to in writing to be bound by the terms and conditions hereof.

8.2. FINANCIAL INFORMATION. If requested by Customer, EESI shall deliver (i) within 120 days following the end of each fiscal year, a copy of the annual report of Enron Corp. containing audited consolidated financial statements for such fiscal year certified by independent certified public accountants and (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of the quarterly report of Enron Corp. containing unaudited consolidated financial statements for such fiscal quarter. If requested by EESI, Customer shall deliver (i) within 120 days following the end of each fiscal year, a copy of the annual report of Customer containing audited consolidated financial statements for such fiscal year certified by independent certified public accountants and (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of the quarterly report of Customer containing unaudited consolidated financial statements for such fiscal quarter. In all cases the statements shall be for the most recent accounting period and prepared in accordance with GAAP or such other principles then in effect; provided, should any such statements not be available timely due to a delay in preparation or certification, such delay shall not be considered a default so long as such Party diligently pursues the preparation, certification and delivery of the statements.

8.3 NOTICES. All notices, requests, statements or payments shall be made as specified in Exhibit "A". Notices required to be in writing shall be delivered by letter, facsimile or other documentary form. Notice by facsimile or hand delivery shall be deemed to have been received by the close of the Business Day on which it was transmitted or hand delivered (unless transmitted or hand delivered after close in which case it shall be deemed received at the close of the next Business Day). Notice by overnight mail or courier shall be deemed to have been received two Business Days after it was sent. A Party may change its addresses by providing notice of same in accordance herewith.

8.4. CONFIDENTIALITY. Neither Party shall disclose the terms or conditions of this Agreement to a third party (other than the Party's and its Affiliates' employees, lenders, counsel, accountants or advisors who have a need to know such information and have agreed to keep such terms confidential) except in order to comply with any applicable Law or exchange rule; provided, each Party shall notify the other Party of any proceeding of which it is aware which may result in disclosure and use reasonable efforts to prevent or limit the disclosure. The Parties shall be entitled to all remedies available at law or in equity to enforce, or seek relief in connection with, this confidentiality obligation. Notwithstanding the foregoing, Customer agrees that EESI or its affiliates may use Customer's name and a general description of the services provided by EESI to Customer hereunder in customer lists and other promotional or advertising materials that EESI may develop from time to time. Any press release regarding this Agreement will be on the Parties' mutual consent and will be developed jointly by the Parties.

8.5. GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND DUTIES OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED, ENFORCED AND PERFORMED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

8.6. WINDING UP ARRANGEMENTS. All indemnity and audit rights shall survive the termination of this Agreement. All obligations provided in this Agreement shall remain in effect for the purpose of complying herewith.

8.7. GENERAL. This Master Agreement, the Exhibits and Appendices hereto, if any, and each Transaction, constitute the entire agreement between the Parties relating to the subject matter contemplated by this Agreement. No amendment or modification to this Master Agreement shall be enforceable unless reduced to writing and executed by both Parties. Any Party in default under this Agreement shall reimburse the other Party, on demand, for actual, reasonable out-of-pocket expenses (and any interest thereon at the Interest Rate), including, without limitation, reasonable legal fees and expenses incurred by the other Party during the occurrence and continuation of such default in connection with the enforcement of, or the preservation of its rights in respect of this Agreement. This Master Agreement shall not impart any rights enforceable by any third-party other than a permitted successor or assignee bound to this Agreement. No waiver by a Party of any default by the other Party shall be construed as a waiver of any other default. Nothing in this Master Agreement shall be construed to create a partnership or joint venture between the Parties. Any provision of this Agreement that is not essential to the purpose of this Agreement that is declared or rendered unlawful by any applicable court of law or regulatory agency or deemed unlawful because of a statutory or regulatory change (individually or collectively, such events referred to as a "Regulatory Event") will not otherwise affect the remaining lawful obligations that arise under this Agreement; further, if a Regulatory Event occurs, the Parties shall use their best efforts to reform the Agreement in order to give effect to the original intention of the Parties. Notwithstanding the foregoing, or anything else in the Agreement to the contrary, in the event that, as a result of a Regulatory Event, a Party (the "Excused Party") is excused from any payment or performance obligation, the other Party shall be correspondingly excused from any payment or performance obligation that would have arisen but for the failure or inability of the Excused Party to perform. The term "including" when used in this Agreement shall be by way of example only and shall not be considered in any way to be in limitation. The headings used herein are for convenience and reference purposes only.

8.8. ARBITRATION. Any claim, counterclaim, demand, cause of action, dispute, and controversy arising out of or relating to this Agreement or the relationship established by this Agreement, any provision hereof, the alleged breach thereof, or in any way relating to the subject matter of this Agreement, involving the Parties and/or their respective representatives (collectively the "Claims"), even though some or all of such Claims allegedly are extra-contractual in nature, whether such Claims sound in contract, tort, or otherwise, at law or in equity, under state or federal law, whether provided by statute or the common law, for damages or any other relief, shall be resolved by binding arbitration. Arbitration shall be conducted in accordance with the rules of arbitration of the Federal Arbitration Act and, to the extent an issue is not addressed by the federal law on arbitration, by the Commercial Arbitration Rules of the American Arbitration Association. The validity, construction, and interpretation of this agreement to arbitrate, and all procedural aspects of the arbitration conducted pursuant hereto shall be decided by the arbitrators. In deciding the substance of the Parties' Claims, the arbitrators shall refer to the governing law. It is agreed that the arbitrators shall have no authority to award treble, exemplary or punitive damages of any type under any circumstances whether or not such damages may be available under state or federal law, or under the Federal Arbitration Act, or under the Commercial Arbitration Rules of the American Arbitration Association, the Parties hereby waiving their right, if any, to recover any such damages. The arbitration proceeding shall be conducted in Phoenix, AZ. Within thirty days of the notice of initiation of the arbitration procedure, each party shall select one arbitrator. The two arbitrators shall select a third arbitrator. The third arbitrator shall be a person who has over eight years professional experience in electrical energy-related transactions and who has not previously been employed by either Party and does not have a direct or indirect interest in either Party or the subject matter of the arbitration. While the third arbitrator shall be neutral, the two party-appointed arbitrators are not required to be neutral, and it shall not be grounds for removal of either of the two party-appointed arbitrators or for vacating the arbitrators' award that either of such arbitrators has past or present relationships with the Party that appointed such arbitrator. To the fullest extent permitted by law, any arbitration proceeding and the arbitrators award shall be maintained in confidence by the Parties.

The Parties have executed this Master Agreement in multiple counterparts to be construed as one effective as of the Effective Date.

ENRON ENERGY SERVICES, INC.

By: ---

Name: ---

Title: ---

CALLAWAY GOLF COMPANY

By: /s/ Ronald A. Drapeau

Name: Ronald A. Drapeau
Title: Senior Executive Vice President of Manufacturing

APPENDIX "1" -- DEFINITIONS TO THE MASTER ENERGY PURCHASE AND SALE AGREEMENT

All references to Articles and Sections are to those set forth in this Agreement. Reference to any document means such document as amended from time to time and reference to any Party includes any permitted successor or assignee thereof. The following definitions and any terms defined internally in this Agreement shall apply to this Agreement and all notices and communications made pursuant to this Agreement.

"AAA" shall have the meaning defined in Section 8.8.

"AFFECTED PARTY" shall have the meaning defined in Section 7.2.

"AFFECTED TRANSACTIONS" shall have the meaning defined in Section 7.2.

"AFFILIATE" means, with respect to any person, any other person (other than an individual) that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such person. For this purpose, "control" means the direct or indirect ownership of fifty percent (50%) or more of the outstanding capital stock or other equity interests having ordinary voting power.

"AGREEMENT PERIOD" shall have the meaning defined in Section 7.2.

"BANKRUPTCY PROCEEDING" means with respect to a Party or entity, such Party or entity (i) makes an assignment or any general arrangement for the benefit of creditors, (ii) files a petition or otherwise commences, authorizes or acquiesces in the commencement of a proceeding or cause of action under any bankruptcy or similar law for the protection of creditors, or has such petition filed against it and such petition is not withdrawn or dismissed for thirty (30) days after such filing, (iii) otherwise becomes bankrupt or insolvent (however evidenced) or (iv) is unable to pay its debts as they fall due.

"BUSINESS DAY" means a day on which Federal Reserve member banks in New York City are open for business; and a Business Day shall open at 8:00 a.m. and close at 5:00 p.m. local time for each Party's principal place of business.

"BUYER" means the Party to a Transaction who is obligated to purchase and receive, or cause to be received, Energy during a Delivery Term.

"CLAIMS" means all claims or actions, threatened or filed and whether groundless, false or fraudulent, that directly or indirectly relate to the subject matter of an indemnity, and the resulting losses, damages, expenses, attorneys' fees and court costs, whether incurred by settlement or otherwise, and whether such claims or actions are threatened or filed prior to or after the termination of this Agreement.

"CONFIRMATION LETTER" means a written notice confirming the specific terms of a Transaction which shall be in the form attached hereto as "Exhibit B".

"CONTRACT PRICE" means the price in $U.S. (unless otherwise provided for) to be paid by Buyer to Seller for the purchase of Energy pursuant to a Transaction.

"CONTRACT QUANTITY" means that quantity of Energy that Seller agrees to sell and deliver, or cause to be delivered, to Buyer, and that Buyer agrees to purchase and receive, or cause to be received, from Seller, pursuant to the terms of a Transaction.

"COSTS" shall have the meaning defined in Section 4.3(a)(iii).

"DEFAULTING PARTY" shall have the meaning defined in Section 4.1.

"DELIVERY POINT" means the agreed point of delivery and receipt of Energy pursuant to a Transaction.

"DELIVERY TERM" means the period of time from the date physical delivery of the Energy is to commence to the date physical delivery is to terminate under a Transaction.

"EARLY TERMINATION DATE" shall have the meaning defined in Section 4.2(a).

"ENERGY" means Merchandisable Energy expressed in megawatt hours (MWh) or to the extent specifically agreed to by the Parties, capacity or other related products and services and specifically includes the Commodity.

"EQUITABLE DEFENSES" means any bankruptcy, insolvency, reorganization and other laws affecting creditor's rights generally, and with regard to equitable remedies, the discretion of the court before which proceedings to obtain same may be pending.

"EVENT OF DEFAULT" shall have the meaning defined in Section 4.1.

"EXCUSED PARTY" shall have the meaning defined in Section 8.7.

"FIRM" means, with respect to a Transaction, that the only excuse for the failure to deliver Energy by Seller or the failure to receive Energy by the Buyer pursuant to a Transaction is Force Majeure or the other Party's non-performance.

"FORCE MAJEURE" means (with respect to Firm Transactions) an event not anticipated as of the Effective Date, which is not within the reasonable control of the Party (or in the case of third party obligations or facilities, the third party) claiming suspension (the "Claiming Party"), and which by the exercise of due diligence the Claiming Party, or third party, is unable to overcome or obtain or cause to be obtained a commercially reasonable substitute therefor. Force Majeure may include, but is not restricted to, acts of God; fire; civil disturbance; labor dispute; labor or material shortage; sabotage; action or restraint by court order or public or governmental authority that renders this Agreement illegal or unenforceable (so long as the Claiming Party has not applied for or assisted in the application for, and has opposed where and to the extent reasonable, such government action); provided, that neither (i) the loss of Buyer's markets nor Buyer's inability economically to use or resell Energy purchased hereunder nor (ii) Seller's ability to sell Energy to a market at a more advantageous price, shall constitute an event of Force Majeure.

"GAAP" means generally accepted accounting principles, consistently applied.

"GAINS" shall have the meaning defined in Section 4.3(a)(i).

"INTEREST RATE" means, for any date, two percent over the per annum rate of interest equal to the prime lending rate as may from time to time be published in The Wall Street Journal under "Money Rates"; provided, the Interest Rate shall never exceed the maximum lawful rate permitted by applicable law.

"LAW" means any law, rule, statute, regulation, order, writ, judgment, decree or other legal or regulatory determination by a court, regulatory agency or governmental authority of competent jurisdiction.

"LEGAL PROCEEDINGS" means any suits, proceedings, judgments, rulings or orders by or before any court or any governmental authority.

"LOSSES" shall have the meaning defined in Section 4.3(a)(ii).

"MERCHANDISABLE ENERGY" means electric energy of the character commonly known as three-phase, sixty-hertz electric energy that is delivered at the nominal voltage of the Delivery Point.

"NYMEX" means the New York Mercantile Exchange.

"NEW TAXES" means (i) any Taxes enacted and effective after the Effective Date and a material increase in the rate of any Taxes or New Taxes, or (ii) any law, order, rule or regulation, or interpretation thereof, enacted and effective after the Effective Date resulting in the application of any Taxes to a new or different class of persons.

"NON-AFFECTED PARTY" shall have the meaning defined in Section 7.2.

"NON-DEFAULTING PARTY" shall have the meaning defined in Section 4.1(a).

"NON-FIRM" means, with respect to a Transaction, that delivery or receipt of Energy may be interrupted for any reason, without liability by either Party, including, without limitation, price fluctuations.

"PENALTIES" shall mean any costs, charges and/or penalties that are imposed by a Utility, Transmission Provider, and/or other persons in the event Seller fails to schedule or Buyer fails to receive amounts of Energy that the Parties agreed to schedule and receive under a Firm Transaction, expressly including any actual excess costs of Energy incurred by Buyer or Seller as a result thereof, whether such costs are incurred from the applicable Utility, Transmission Provider or another Energy provider, including losses due to Utility or Transmission Provider cash outs or excess Energy purchases.

"REGULATED PARTY" shall have the meaning defined in Section 4.5.

"REGULATORY APPROVALS" means all permissions required under current and future valid and applicable Laws.

"REGULATORY EVENT" shall have the meaning defined in Section 8.7.

"REPLACEMENT PRICE" shall have the meaning defined in Section 3.5.

"SALES PRICE" shall have the meaning defined in Section 3.6.

"SCHEDULING" or "SCHEDULE" means the acts of Seller, Buyer and/or their designated representatives, including each Party's Transmission Providers, if applicable, of notifying, requesting and confirming to each other the quantity and type of Energy to be delivered hourly on any given day or days during the Delivery Term at a specified Delivery Point.

"SELLER" means the Party to a Transaction who is obligated to sell and deliver or cause to be delivered Energy during a Delivery Term.

"TAXES" means any or all ad valorem, property, occupation, severance, generation, first use, conservation, Btu or energy, transmission, utility, gross receipts, privilege, sales, use, consumption, excise, lease, transaction, and other taxes or New Taxes, governmental charges, licenses, fees, permits and assessments, or increases therein, other than taxes based on net income or net worth.

"TERMINATED TRANSACTION" shall have the meaning defined in Section 5.3.

"TERMINATED PAYMENT" shall have the meaning defined in Section 4.3(e).

"TRANSACTION" means a particular transaction agreed to by the Parties relating to the purchase and sale of Energy pursuant to this Master Agreement.

"TRANSMISSION CHARGES" means the amount, if any, to be paid by a Party to a Transmission Provider or Utility for transmission and distribution of Energy and related services as agreed to by the Parties in a Transaction.

"TRANSMISSION PROVIDERS" means the entity or entities transmitting Energy on behalf of Seller or Customer to or from the Delivery Point in a particular Transaction, including, without limitation, any applicable Independent System Operator or Regional Transmission Operator.

"UCC" shall have the meaning defined in Section 5.3.

"UTILITY" means the electric utility distribution company or Transmission Provider providing tariffed services to each of the Facilities as of the Effective Date, and any successor thereto providing similar services.

EXHIBIT "A"
TO THE
MASTER ENERGY PURCHASE AND SALE AGREEMENT

NOTICES AND PAYMENT

EESI:

NOTICES & CORRESPONDENCE
Enron Energy Services, Inc.
P.O. Box 1188
Houston, Texas 77251-1188
Attn.: Contract Administration
Facsimile No.: (713) 853-0528

PAYMENTS:
Bank of America
for: Enron Energy Services, Inc.
ABA No.: 111000012
Account No.: 3751257727

INVOICES:
Enron Energy Services, Inc.
P.O. Box 1188
Houston, Texas 77251-1188
Attn.: Ms. Derenda Plunkett
Telephone No.: (713) 853-9340
Facsimile No.: (713) 646-2505

CUSTOMER:

NOTICES & CORRESPONDENCE:
Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA
Attn.: Thomas J. Macias
Telephone No.: (760) 930-5216
Facsimile No.: (760) 930-5350

INVOICES:
Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA
Attn.: Accounts Payable
Telephone No.: (760) 930-5451
Facsimile No.: (760) 930-5007

or to such other address as Customer or EESI shall from time to time designate by letter properly addressed.

EXHIBIT "B" TO THE
MASTER ENERGY PURCHASE AND SALE AGREEMENT

FORM OF CONFIRMATION LETTER
FOR TRANSACTIONS FORMED UNDER SECTION 1.2

[Date]

[Customer]
Address]

CONFIRMATION LETTER

This Confirmation Letter shall confirm the agreement reached on _________, 2001 between _______________ ("Customer") and Enron Energy Services, Inc. ("EESI") regarding the sale/purchase of Energy under the terms and conditions as follows:

SELLER:	_________________________
CUSTOMER:	_________________________
COMMODITY:	CAISO Energy
DELIVERY TERM:	_________________________
CONTRACT PRICE:	_________________________
CONTRACT QUANTITY:	_________________________
DELIVERY POINT:	_________________________
SCHEDULING:	_________________________
SPECIAL CONDITION(S):	_________________________
OTHER:	_________________________

This Confirmation Letter is being provided pursuant to and in accordance with the Master Energy Purchase and Sale Agreement dated ________, 2001 (the "Master Agreement") between Customer and EESI, and constitutes part of and is subject to all of the terms and provisions of such Master Agreement. Terms used but not defined herein shall have the meanings ascribed to them in this Master Agreement.

"CAISO Energy" means, with respect to a Transaction, a quantity of energy equal to the hourly quantity without Ancillary Services (as defined in the Tariff, as defined below) that is or will be scheduled as a schedule coordinator to schedule coordinator transaction pursuant to the applicable tariff and protocol provisions set forth in the California Independent System Operator ("CAISO") (as may be amended from time to time, the "Tariff") for which the only excuse for failure to deliver or receive is an "Uncontrollable Force," as such term is defined in the Tariff.

Please confirm that the terms stated herein accurately reflect the agreement between you and EESI by returning an executed copy of this letter by facsimile to EESI. If you do not return this Confirmation or object to this Confirmation within two (2) Business Days of your receipt of it, you will have accepted and agreed to all of the terms included herein, including the terms and provisions of the Agreement.

CALLOWAY GOLF COMPANY	ENRON ENERGY SERVICES, INC.
By: ------------------------	By: ------------------------
Title: ------------------------	Title: ------------------------
Date: ------------------------	Date: ------------------------

April 12, 2001
CONFIRMATION LETTER

This Confirmation Letter shall confirm the agreement reached on April 12, 2001 between Callaway Golf Company ("Customer") and Enron Energy Services, Inc. ("EESI") regarding the sale/purchase of Energy under the terms and conditions as follows:

Parties:	EESI is the "Seller" and Customer is the "Buyer"
Delivery Term:	June 1, 2001 through May 31, 2006
Contract Price:	$110.25 per MWh at the Delivery Point. Customer shall be solely responsible for all charges incurred with respect to the transmission and delivery at and from the Delivery Point, including, without limitation, Utility charges, competitive transition charges, Utility surcharges, direct access charges, and load shaping, balancing and scheduling charges.
Contract Quantity:	9MW of CAISO Energy (defined below) per hour or 394,416 MWh for the Delivery Term.
Delivery Point:	SP 15
Special Conditions:	The Parties recognize that under this Transaction EESI is delivering to Customer the Contract Quantity at the Delivery Point and is not providing Customer with any Energy load shaping, balancing or scheduling services, which Customer shall procure for its own account at its sole expense. Customer shall be solely responsible for arranging for the receipt of the Contract Quantity at the Delivery Point and for the subsequent transmission and delivery of the Contract Quantity from the Delivery Point to Customer's meter(s) and for any and all cost incurred with respect thereto. If necessary, Customer shall be solely responsible for obtaining status with the respective Utility as a "direct access" customer, obtaining and designating a direct access service provider, and paying any and all costs incurred with respect thereto. EESI shall not be customer's direct access provider, and Customer shall not be a direct access customer of EESI, under this Transaction. Failure of Customer to obtain direct access status; to arrange for receipt of the Contract Quantity at the Delivery Point; or to arrange for the subsequent transmission and delivery of the Contract Quantity shall not excuse Customer's performance under this Transaction or the Master Agreement.

OTHER: "CAISO Energy" means, with respect to the Transaction, the quantity of energy equal to the hourly quantity without Ancillary Services (as defined in the Tariff, as defined below) that is or will be scheduled as a schedule coordinator-to-schedule coordinator transaction pursuant to the applicable tariff and protocol provisions set forth in the California Independent System Operator ("CAISO") (as may be amended from time to time, the "Tariff") for which the only excuse for failure to deliver or receive is an "Uncontrollable Force," as such term is defined in the Tariff.

This Confirmation Letter is being provided pursuant to and in accordance with the Master Energy Purchase and Sale Agreement dated April 12, 2001 (the "Master Agreement") between Customer and EESI, and constitutes part of and is subject to all of the terms and provisions of such Master Agreement. Terms used but not defined herein shall have the meanings ascribed to them in this Master Agreement.

Please confirm that the terms stated herein accurately reflect the agreement between you and EESI by returning an executed copy of this letter by facsimile to EESI. If you do not return this Confirmation or object to this Confirmation within two (2) Business Days of your receipt of it, you will have accepted it and agreed to all of the terms included herein, including the terms and provisions of the Agreement.

CALLAWAY GOLF COMPANY	ENRON ENERGY SERVICES, INC.
By: /s/ RONALD A. DRAPEAU	By: ______________________________
Title: Senior Executive Vice President, Manufacturing	Title: ____________________________
Date: April 13, 2001	Date: April 13, 2001

EXHIBIT 10.51

RESIGNATION AND CONSULTING AGREEMENT WITH MUTUAL RELEASES

This Resignation and Consulting Agreement with Mutual Releases ("Agreement") is effective May 31, 2001, and is made by and between CHARLES J. YASH ("Employee") and CALLAWAY GOLF COMPANY (the "Company"), a Delaware corporation. Employee is currently employed by the Company pursuant to an Executive Officer Employment Agreement effective January 1, 2000, as amended by the First Amendment to Executive Officer Employment Agreement effective as of November 13, 2000 (collectively the "Executive Officer Employment Agreement").

Recitals

A. The Company is in the business of designing, manufacturing and selling golf clubs, golf balls, and related products using trade secrets, patented procedures and other proprietary information. The Company is currently marketing its products in the United States of America and internationally.

B. Employee is currently an employee of the Company and has experience and expertise in managing companies that design, manufacture and sell golf clubs and golf balls, as well as efforts to grow the game of golf. The Company had elected to end Employee's employment with the Company pursuant to Section 8(a) of the Executive Officer Employment Agreement. In lieu of such action, the Company and Employee have agreed to enter into this Agreement pursuant to Section 8(g) of the Executive Officer Employment Agreement. Employee's employment with the Company shall end on May 31, 2001.

C. The Company believes that the experience and expertise of Employee will be of benefit to the Company after his employment ends. The Company desires to obtain Employee's continuing cooperation as a consultant to the Company as a result of this Agreement. Therefore, effective June 4, 2001, Employee will begin providing consulting services to the Company, and shall continue providing such services, upon request of the Company, until May 31, 2004.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the adequacy of which is hereby acknowledged, the Company and Employee desire to enter into this Agreement pursuant to section 8(g) of the Executive Officer Employment Agreement to establish certain terms relating to Employee's resignation from his employment and provision of consulting services to the Company.

1. Resignation. Employee hereby gives notice of his resignation as an employee of the Company effective May 31, 2001 (the "Resignation Date"). Employee also gives notice of his resignation, effective immediately, as a director of the Company and as a director or officer of the Company's affiliates, including but not limited to Callaway Golf Europe, Ltd., and the Callaway Golf Company Foundation.

2. Transition and Severance.

(a) Severance. The Company has agreed to provide Employee the following severance:

(i) payment of one million five hundred thousand dollars ($1,500,000.00), paid in twenty-four (24) equal monthly payments of sixty-two thousand five hundred dollars ($62,500.00) each, commencing in June 2001 and ending in May 2003;

(ii) subject to the approval of the Stock Option Committee of the Company's Board of Directors, the Company shall accelerate the vesting of all unvested options to purchase the Company's stock which have not vested as of May 31, 2001, such that those options shall vest on May 31, 2001, the last date of Employee's employment by the Company;

(iii) subject to the approval of the Stock Option Committee of the Company's Board of Directors, the stock option grant made to Employee pursuant to the stock option agreement dated May 10, 1996, as amended and restated on February 7, 2001, of 600,000 shares at $25.125 (of which 80,000 shares have been exercised) shall be amended as reflected in the Second Amended and Restated Stock Option Agreement attached hereto as Exhibit A;

(iv) subject to the approval of the Stock Option Committee of the Company's Board of Directors, the stock option grant made to Employee pursuant to the stock option agreement dated April 24, 1998, of 150,000 shares at $27.375 shall be amended as reflected in the Amended and Restated Stock Option Agreement attached hereto as Exhibit B;

(v) the payment of premiums owed for COBRA insurance benefits for a period of eighteen (18) months from the Effective Date; and

(vi) the payment of tax and estate planning benefits on such terms and conditions as they are made available to senior executive officers of the Company for a period of twenty-four (24) months following the Resignation Date.

(b) Other Benefits. Employee's release, as set forth in Section 6 below, does not change Employee's existing right to receive payment of unpaid vacation through the Resignation Date or his existing rights under the Company's 401k Pension Plan, ESPP, and Executive Deferred Compensation Plan.

(c) Cooperation on Taxes. Employee agrees, if requested, to cooperate with the Company regarding any federal, state or local tax issues arising out of Employee's employment or this Agreement.

3. Confidentiality, Non-Compete and Non-Disparagement During Severance Period. Employee acknowledges and reaffirms that while he is receiving severance or other consideration from the Company pursuant to this Agreement or any other agreement with the Company:

(a) he will continue to comply with the terms and conditions of the Executive Officer Employment Agreement, including Sections 7(a), 7(b), 7(c), 7(e), 12, 13 and 18 of the Executive Officer Employment Agreement;

(b) he will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business which engages directly or indirectly in competition with the businesses of the Company or any of its affiliates, or have any interest, direct or indirect, in any person, firm corporation, or venture which directly or indirectly competes with the businesses of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund. Employee acknowledges that he will be receiving consideration from the Company, in the form of severance payments and other benefits as set forth in section 2 above, until May 31, 2003. Notwithstanding that certain stock options do not expire until May 31, 2004, the parties agree that Employee's non-compete obligation expires as of May 31, 2003; and

(c) he will not, directly, indirectly, or in any other way, disparage the Company, its officers or employees, vendors, customers, products or activities, or otherwise interfere with the Company's press, public and media relations.

4. Injunction and Other Remedies. Employee understands and agrees that the nature of damages for breach of this Agreement or the Executive Officer Employment Agreement may be such that an injunction is the only remedy that will protect the Company from a breach. Employee hereby agrees to the entry of such an injunction by an appropriate court of competent jurisdiction or an arbitrator (including enforcement of any arbitration award by a Court) to enjoin any breach of any obligation owed by Employee to the Company.

5. Employee Cooperation and Consulting Services. Effective June 4, 2001, the Company shall engage the services of Employee and Employee shall provide services as a consultant to the Company through May 31, 2004, as set forth below:

(a) Employee's main contact at the Company will be Michael J. Rider, or such person as may be designated by the Company in writing. Employee shall provide cooperation and consulting services beneficial to the Company, including consultation on growing the game of golf, promoting the success of the Company, and assisting with the prosecution and/or defense of any dispute involving the Company, including but not limited to the Bridgestone vs. Callaway Golf Ball Company lawsuit;

(b) Normal travel time (e.g. a drive back and forth to Los Angeles) shall not be compensated. Extended travel time (e.g. an overseas plane flight or an overnight stay at a location requested by the Company) shall be compensated as set forth below. At the Company's request, Employee shall be available to consult on a full time (forty hour per week) basis. Employee further specifically agrees that he shall appear at any trial or other proceeding, at the Company's request, regardless of the Company's ability to subpoena Employee or any other employment obtained by Employee;

(c) Employee shall invoice the Company for service hours at the billing rate of $125.00 per hour. Said invoices shall be paid monthly, upon receipt and approval of the Company. Should the Company request Employee to travel overseas or to spend the night at a location away from his home, the Company shall also pay Employee a flat travel fee of $400.00 for travel time, each way, and $1000.00 per day for any day that Employee provides services at a location away from home;

(d) The Company shall reimburse Employee for all reasonable, customary and necessary expenses for travel, lodging and materials incurred in the performance of the services to be provided hereunder. On a monthly basis, Employee shall account for such expenses by submitting a signed invoice itemizing such expenses and attaching original receipts. The amount, nature and extent of such expenses shall always be subject to the control, supervision and direction of the Company;

(e) Section 13 of the Executive Officer Employment Agreement, governing Assignment of Rights, shall continue to apply to any Designs, Inventions and Innovations (as defined therein) that he develops, conceives or reduces to practice prior to May 31, 2004.

(f) Employee acknowledges and further agrees that as to consulting services that he provides on or after June 4, 2001, he is an independent contractor, is solely responsible for the payment of any taxes and/or assessments imposed on account of the payment of compensation for consulting services, including without limitation, any state unemployment insurance tax, federal, state and foreign income taxes, federal Social Security (FICA) payments, and state disability insurance taxes with respect to compensation paid pursuant to Sections 4(c) and (d) above, and Employee expressly agrees to treat any compensation earned pursuant thereto as self-employment income for federal and state tax purposes, and to make all payments of federal and state income taxes, unemployment insurance taxes, and disability insurance taxes when the same may become due and payable with respect to such self-employment compensation. Employee further agrees and undertakes to indemnify and hold harmless the Company, its officers, directors, agent, employees and the successors or heirs of any of them, from any and all liability loss, damages, expenses, penalties and/or judgments arising out of any failure of Employee to make any payment of taxes required to be made by Employee under this Section or the failure to comply with any other law or regulation.

(g) Employee acknowledges and further agrees that effective June 4, 2001: (i) he is a self-employed, independent contractor; (ii) nothing in this Agreement shall be considered to maintain an employer-employee relationship between Employee and the Company; and (iii) he shall not be deemed to be an employee of the Company for any purpose whatsoever.

6. Releases.

(a) Employee's General Release. In consideration for the Severance Payment and other consideration described in section 2 and the other obligations agreed to by the Company pursuant to this Agreement, Employee hereby irrevocably and unconditionally releases and forever discharges the Company, its predecessors, successors, subsidiaries, affiliates and benefit plans, and each and every past, present and future officer, director, employee, representative and attorney of the Company, its, predecessors, successors, subsidiaries, affiliates and benefit plans, and their successors and assigns (collectively referred to herein as the "Company Releasees"), from any, every, and all charges, complaints, claims, causes of action, and lawsuits of any kind whatsoever, including, to the extent permitted under the law, all claims which Employee has against the Company Releasees, or any of them, arising from or in any way related to circumstances or events arising out of Employee's employment by the Company, including but not limited to, harassment, discrimination, retaliation, failure to progressively discipline Employee, termination of Employee's employment, and/or breach of the Executive Officer Employment Agreement, together with any and all other claims based on the Company's employment of Employee, or any other event occurring prior to the date of this Agreement. EMPLOYEE ALSO SPECIFICALLY AGREES AND ACKNOWLEDGES THAT EMPLOYEE IS WAIVING ANY RIGHT TO RECOVERY AGAINST THE COMPANY RELEASEES BASED ON STATE OR FEDERAL, SEX, PREGNANCY, RACE, COLOR, NATIONAL ORIGIN, MARITAL STATUS, RELIGION, VETERAN STATUS, DISABILITY, SEXUAL ORIENTATION, MEDICAL CONDITION OR OTHER ANTI-DISCRIMINATION LAWS, INCLUDING WITHOUT LIMITATION, TITLE VII, THE AMERICANS WITH DISABILITIES ACT, AND THE CALIFORNIA FAIR HOUSING AND EMPLOYMENT ACT, OR BASED ON THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OR THE WORKER ADJUSTMENT AND

RETRAINING NOTIFICATION ACT, ALL AS AMENDED, WHETHER SUCH CLAIM BE BASED UPON AN ACTION FILED BY EMPLOYEE OR A GOVERNMENTAL AGENCY. Provided. however, that nothing in the foregoing or otherwise in this Agreement is intended to waive any of Employee's rights to have the Company defend and/or indemnify him in accordance with the General Corporation Law of Delaware and the Bylaws of the Company, as the same now exist or may hereafter be amended, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any threatened, pending or completed action, suit, or proceeding in which Employee was or is a party or is threatened to be made a party by reason of the fact that Employee is or was a director or officer of the Company.

(b) Company's Limited Release. In consideration for the obligations agreed to by the Employee pursuant to this Agreement, the Company hereby irrevocably and unconditionally releases and forever discharges Employee, his successors and assigns (collectively referred to herein as the "Employee Releasees"), from any, every and all charges, complaints, claims, causes of action, and lawsuits of any kind that the Company now knows it has or may have against Employee Releasees, including, to the extent permitted under the law, all claims which the Company has against the Employee Releasees, or any of them, arising from or in any way related to known circumstances or events arising out of Employee's employment by the Company, together with any and all other known claims based on the Company's employment of Employee, or any other known event occurring prior to the date of this Agreement. THE COMPANY ALSO SPECIFICALLY AGREES AND ACKNOWLEDGES THAT IT IS WAIVING ANY RIGHT TO RECOVERY AGAINST EMPLOYEE RELEASEES BASED ON STATE OR FEDERAL, SEX, PREGNANCY, RACE, COLOR, NATIONAL ORIGIN, MARITAL STATUS, RELIGION, VETERAN STATUS, DISABILITY, SEXUAL ORIENTATION, MEDICAL CONDITION OR OTHER ANTI-DISCRIMINATION LAWS, INCLUDING WITHOUT LIMITATION, TITLE VII, THE AMERICANS WITH DISABILITIES ACT, AND THE CALIFORNIA FAIR HOUSING AND EMPLOYMENT ACT, OR BASED ON THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OR THE WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT, ALL AS AMENDED, WHETHER SUCH CLAIM BE BASED UPON AN ACTION FILED BY THE COMPANY OR A GOVERNMENTAL AGENCY.

7. Waiver. Employee waives all rights under section 1542 of the Civil Code of the State of California. Section 1542 provides as follows:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

8. Substantial Cause. Employee understands that the Company retains its right to terminate this Agreement at any time for Substantial Cause. "Substantial Cause" shall mean, for purposes of this Agreement, failure by Employee to substantially perform his obligations hereunder or other material breach of this Agreement, including, without limitation, any breach of sections 3, 5, 13, 14 or 23 of this Agreement.

9. Entire Agreement. This Agreement, the Executive Officer Employment Agreement and the Release executed in conjunction with this Agreement, constitute the entire agreement between the parties with respect to the subject matter hereof and may not be modified or amended, except by written agreement signed by all parties. This Agreement and the Executive Officer Employment Agreement shall be deemed to be consistent with each

other, and this Agreement shall be deemed to be "another instrument in writing executed by the parties," pursuant to section 16 of the Executive Officer Employment Agreement.

10. No Admission of Liability. This Agreement and the releases contained herein affect the settlement of potential or existing claims which are denied and contested, and nothing contained herein shall be construed as an admission by a party of any liability of any kind to the other party.

11. Governing Law. This Agreement shall be construed and enforced in accordance with the internal laws of the State of California.

12. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

13. The Company's Proprietary Information and Inventions. Employee acknowledges and understands that section 12 of the Executive Officer Employment Agreement extends beyond the terms of Employee's employment with the Company. Employee agrees to comply with such terms. Employee understands that his failure to adhere to section 12 of the Executive Officer Employment Agreement shall be a material breach of this Agreement, as well as the Executive Officer Employment Agreement, and that all benefits under this Agreement and the Executive Officer Employment Agreement will be forfeited in the event of such a breach.

14. No Disparagement.

(a) For a period of two years following the Resignation Date, Employee agrees not to make any statement disparaging the Company, its current or former employees, vendors, customers, products or activities, or otherwise interfere with the Company's press, public and media relations. Employee understands that this is a material obligation under this Agreement. Notwithstanding the above, Employee shall not be responsible for the unauthorized statements or actions of his family members.

(b) For a period of two years following the Effective Date, the Company agrees to use reasonable efforts to avoid any statement or action by the Directors or the members of the senior management of the Company that might be disparaging of Employee, subject to the legal and other disclosure obligations of the Company. Notwithstanding the above, the Company shall not be responsible for the unauthorised statements or actions of its directors, officers or employees.

15. Return of Company Property. Employee acknowledges that Employee is obligated to and will return all Company property by May 31, 2001, including all computers, facsimile machines, and telephones provided for business use in Employee's homes.

16. Knowing and Voluntary Agreement. Employee and the Company have carefully read and fully understand all of the provisions of this Agreement. Employee and the Company knowingly and voluntarily agree to all the terms set forth in this Agreement. Employee and the Company knowingly and voluntarily intend to be legally bound by the same.

17. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) EMPLOYEE AND THE COMPANY AGREE THAT ANY DISPUTE, CONTROVERSY OR CLAIM ARISING HEREUNDER OR IN ANY WAY RELATED TO THIS AGREEMENT, ITS INTERPRETATION, ENFORCEABILITY, OR APPLICABILITY, OR RELATING TO EMPLOYEE'S EMPLOYMENT, OR THE TERMINATION

THEREOF, THAT CANNOT BE RESOLVED BY MUTUAL AGREEMENT OF THE PARTIES SHALL BE SUBMITTED TO BINDING ARBITRATION. THIS INCLUDES, BUT IS NOT LIMITED TO, ALLEGED VIOLATIONS OF FEDERAL, STATE AND/OR LOCAL STATUTES, CLAIMS BASED ON ANY PURPORTED BREACH OF DUTY ARISING IN CONTRACT OR TORT, INCLUDING BREACH OF CONTRACT, BREACH OF THE COVENANT OF GOOD FAITH AND FAIR DEALING, VIOLATION OF PUBLIC POLICY, VIOLATION OF ANY STATUTORY, CONTRACTUAL OR COMMON LAW RIGHTS, BUT EXCLUDING WORKERS' COMPENSATION, UNEMPLOYMENT MATTERS, OR ANY MATTER FALLING WITHIN THE JURISDICTION OF THE STATE LABOR COMMISSIONER. THE PARTIES AGREE THAT ARBITRATION IS THE PARTIES' ONLY RECOURSE FOR SUCH CLAIMS AND HEREBY WAIVE THE RIGHT TO PURSUE SUCH CLAIMS IN ANY OTHER FORUM, UNLESS OTHERWISE PROVIDED BY LAW. ANY COURT ACTION INVOLVING A DISPUTE WHICH IS NOT SUBJECT TO ARBITRATION SHALL BE STAYED PENDING ARBITRATION OF ARBITRABLE DISPUTES; PROVIDED, HOWEVER, THAT THE PARTIES SHALL HAVE THE RIGHT TO SEEK PROVISIONAL RELIEF IN AN ANCILLARY COURT ACTION IN CONNECTION WITH AN ARBITRABLE DISPUTE.

(b) ANY DEMAND FOR ARBITRATION SHALL BE IN WRITING AND MUST BE COMMUNICATED TO THE OTHER PARTY WITHIN ONE (1) YEAR AFTER THE DISCOVERY OF THE ALLEGED CLAIM OR CAUSE OF ACTION BY THE AGGRIEVED PARTY, OR, IF LATER, WITHIN THE TIME PERIOD STATED IN THE APPLICABLE STATUTE OF LIMITATIONS.

(c) THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE PROCEDURAL RULES STATED IN THE NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA"). THE ARBITRATION SHALL BE CONDUCTED IN SAN DIEGO BY A FORMER OR RETIRED JUDGE OR ATTORNEY WITH AT LEAST 10 YEARS EXPERIENCE IN EMPLOYMENT-RELATED DISPUTES, OR A NON-ATTORNEY WITH LIKE EXPERIENCE IN THE AREA OF DISPUTE, WHO SHALL HAVE THE POWER TO HEAR MOTIONS, CONTROL DISCOVERY, CONDUCT HEARINGS AND OTHERWISE DO ALL THAT IS NECESSARY TO RESOLVE THE MATTER. THE PARTIES MUST MUTUALLY AGREE ON THE ARBITRATOR. IF THE PARTIES CANNOT AGREE ON THE ARBITRATOR AFTER THEIR BEST EFFORTS, AN ARBITRATOR FROM THE AMERICAN ARBITRATION ASSOCIATION WILL BE SELECTED PURSUANT TO THE AMERICAN ARBITRATION ASSOCIATION NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES.

(d) THE ARBITRATION AWARD SHALL BE FINAL AND BINDING, AND MAY BE ENTERED AS A JUDGMENT IN ANY COURT HAVING COMPETENT JURISDICTION. 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 TO ONLY THOSE MATTERS CLEARLY RELEVANT TO THE DISPUTE. HOWEVER, AT A MINIMUM, EACH PARTY WILL BE ENTITLED TO ONE DEPOSITION.

(e) 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, INCLUDING WITNESS FEES AND EXPERT WITNESS FEES, UNLESS THE ARBITRATOR FOR GOOD CAUSE DETERMINES OTHERWISE.

(f) THE PROVISIONS OF THIS SECTION SHALL SURVIVE THE EXPIRATION OR TERMINATION OF THE AGREEMENT, AND SHALL BE BINDING UPON THE PARTIES.

THE PARTIES HAVE READ THIS ARBITRATION PROVISION AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

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(EMPLOYEE'S INITIALS)   (COMPANY'S INITIALS)

18. Advice of Counsel. The Company hereby advises Employee in writing to discuss this Agreement with an attorney before executing it, and Employee acknowledges that he has done so.

19. Counterparts. This Agreement may be executed in one or more counterparts which, when fully executed by the parties, shall be treated as one agreement.

20 Notices. Any notice, request, demand or other communication required or permitted hereunder shall be deemed properly given when actually received or within five days of mailing by certified or registered mail, postage prepaid, to the following addresses, or to such addresses as may be furnished from time to time, in writing, to the other party:

Callaway Golf:	Callaway Golf Company 2180 Rutherford Road Carlsbad, CA 92008 Attn: Steven C. McCracken Senior Executive Vice President, Chief Legal Officer
Employee:	Charles J. Yash Post Office Box 2621 Rancho Santa Fe, CA 92067

21. Severability. In the event any provision or provisions of this Agreement is or are held invalid, the remaining provisions of this Agreement shall not be affected thereby.

22. Rescission. If for whatever reason the Stock Option Committee of the Company's Board of Directors fails to approve the stock option amendments contemplated by Sections 2(ii), (iii) and (iv) of this Agreement, then Employee shall have the right to rescind this Agreement in its entirety within thirty days of receiving notice of such action.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the dates set forth below, to be effective as of the date first written above.

Employee	Company CALLAWAY GOLF COMPANY, a Delaware Corporation
/s/ CHARLES J. YASH	By: /s/ RONALD A. DRAPEAU
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Charles J. Yash	Ronald A. Drapeau President and CEO

EXHIBIT 10.52

RELEASE

This Release ("Release") is effective as of the date provided for in section 10 below, and is made by and between CHARLES J. YASH ("Employee") and CALLAWAY GOLF COMPANY (the "Company"), a Delaware corporation. Effective May 31, 2001, Employee's employment with the Company will terminate pursuant to the terms of a Resignation and Consulting Agreement with Mutual Releases entered into effective May 31, 2001. The Company and Employee also enter into this Release relating to Employee's resignation.

1. Payment.

In consideration for the release of claims as set forth in section 2 herein and Employee's execution of this Release, the Company hereby agrees to pay Employee on or before July 15, 2001, the sum of fifty thousand dollars ($50,000.00).

2. Release. In consideration for the Payment described in section 1 above, Employee hereby irrevocably and unconditionally releases and forever discharges the Company, its predecessors, successors, subsidiaries, affiliates and benefit plans, and each and every past, present and future officer, director, employee, representative and attorney of the Company, its predecessors, successors, subsidiaries, affiliates and benefit plans, and their successors and assigns (collectively referred to herein as the "Releasees"), from any, every, and all charges, complaints, claims, causes of action, and lawsuits of any kind whatsoever, including, to the extent permitted under the law, all claims which Employee has against Releasees, or any of them, arising from or in any way related to circumstances or events arising out of Employee's employment by the Company. EMPLOYEE ALSO SPECIFICALLY AGREES AND ACKNOWLEDGES THAT EMPLOYEE IS WAIVING ANY RIGHT TO RECOVERY AGAINST RELEASEES BASED ON STATE OR FEDERAL AGE ANTI-DISCRIMINATION LAWS, INCLUDING WITHOUT LIMITATION, THE AGE DISCRIMINATION AND EMPLOYMENT ACT OF 1967, AS AMENDED, WHETHER SUCH CLAIM BE BASED UPON AN ACTION FILED BY EMPLOYEE OR A GOVERNMENTAL AGENCY. Provided, however, that nothing in the foregoing or otherwise in this Agreement is intended to waive any of Employee's rights to have the Company defend and/or indemnify him in accordance with the General Corporation Law of Delaware and the Bylaws of the Company, as the same now exist or may hereafter be amended, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any threatened, pending or completed action, suit, or proceeding in which Employee was or is a party or is threatened to be made a party by reason of the fact that Employee is or was a director or officer of the Company.

3. Waiver. Employee waives all rights under section 1542 of the Civil Code of the State of California. Section 1542 provides as follows:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

4. Governing Law. This Release shall be construed and enforced in accordance with the internal laws of the State of California.

5. Binding Effect. This Release shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

6. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) EMPLOYEE AND THE COMPANY AGREE THAT ANY DISPUTE, CONTROVERSY OR CLAIM ARISING HEREUNDER OR IN ANY WAY RELATED TO THIS AGREEMENT, ITS INTERPRETATION, ENFORCEABILITY, OR APPLICABILITY, OR RELATING TO EMPLOYEE'S EMPLOYMENT, OR THE TERMINATION THEREOF, THAT CANNOT BE RESOLVED BY MUTUAL AGREEMENT OF THE PARTIES SHALL BE SUBMITTED TO BINDING ARBITRATION. THIS INCLUDES, BUT IS NOT LIMITED TO, ALLEGED VIOLATIONS OF FEDERAL, STATE AND/OR LOCAL STATUTES, CLAIMS BASED ON ANY PURPORTED BREACH OF DUTY ARISING IN CONTRACT OR TORT, INCLUDING BREACH OF CONTRACT, BREACH OF THE COVENANT OF GOOD FAITH AND FAIR DEALING, VIOLATION OF PUBLIC POLICY, VIOLATION OF ANY STATUTORY, CONTRACTUAL OR COMMON LAW RIGHTS, BUT EXCLUDING WORKERS' COMPENSATION, UNEMPLOYMENT MATTERS, OR ANY MATTER FALLING WITHIN THE JURISDICTION OF THE STATE LABOR COMMISSIONER. THE PARTIES AGREE THAT ARBITRATION IS THE PARTIES' ONLY RECOURSE FOR SUCH CLAIMS AND HEREBY WAIVE THE RIGHT TO PURSUE SUCH CLAIMS IN ANY OTHER FORUM, UNLESS OTHERWISE PROVIDED BY LAW. ANY COURT ACTION INVOLVING A DISPUTE WHICH IS NOT SUBJECT TO ARBITRATION SHALL BE STAYED PENDING ARBITRATION OF ARBITRABLE DISPUTES; PROVIDED, HOWEVER, THAT THE PARTIES SHALL HAVE THE RIGHT TO SEEK PROVISIONAL RELIEF IN AN ANCILLARY COURT ACTION IN CONNECTION WITH AN ARBITRABLE DISPUTE.

(b) ANY DEMAND FOR ARBITRATION SHALL BE IN WRITING AND MUST BE COMMUNICATED TO THE OTHER PARTY WITHIN ONE (1) YEAR AFTER THE DISCOVERY OF THE ALLEGED CLAIM OR CAUSE OF ACTION BY THE AGGRIEVED PARTY, OR, IF LATER, WITHIN THE TIME PERIOD STATED IN THE APPLICABLE STATUTE OF LIMITATIONS.

(c) THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE PROCEDURAL RULES STATED IN THE NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA"). THE ARBITRATION SHALL BE CONDUCTED IN SAN DIEGO BY A FORMER OR RETIRED JUDGE OR ATTORNEY WITH AT LEAST 10 YEARS EXPERIENCE IN EMPLOYMENT-RELATED DISPUTES, OR A NON-ATTORNEY WITH LIKE EXPERIENCE IN THE AREA OF DISPUTE, WHO SHALL HAVE THE POWER TO HEAR MOTIONS, CONTROL DISCOVERY, CONDUCT HEARINGS AND OTHERWISE DO ALL THAT IS NECESSARY TO RESOLVE THE MATTER. THE PARTIES MUST MUTUALLY AGREE ON THE ARBITRATOR. IF THE PARTIES CANNOT AGREE ON THE ARBITRATOR AFTER THEIR BEST EFFORTS, AN ARBITRATOR FROM THE AMERICAN ARBITRATION ASSOCIATION WILL BE SELECTED PURSUANT TO THE AMERICAN ARBITRATION ASSOCIATION NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES.

(d) THE ARBITRATION AWARD SHALL BE FINAL AND BINDING, AND MAY BE ENTERED AS A JUDGMENT IN ANY COURT HAVING COMPETENT JURISDICTION. 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 TO ONLY THOSE MATTERS CLEARLY RELEVANT TO THE DISPUTE. HOWEVER, AT A MINIMUM, EACH PARTY WILL BE ENTITLED TO ONE DEPOSITION.

(e) THE PARTIES UNDERSTAND AND AGREE THAT THE ARBITRATOR HAS NO AUTHORITY TO AWARD PUNITIVE DAMAGES.

(f) 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, INCLUDING WITNESS FEES AND EXPERT WITNESS FEES, UNLESS THE ARBITRATOR FOR GOOD CAUSE DETERMINES OTHERWISE.

(g) THE PROVISIONS OF THIS SECTION SHALL SURVIVE THE EXPIRATION OR TERMINATION OF THE AGREEMENT, AND SHALL BE BINDING UPON THE PARTIES.

THE PARTIES HAVE READ THIS ARBITRATION PROVISION AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

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(EMPLOYEE'S INITIALS)	(COMPANY'S INITIALS)

7. Counterparts. This Release may be executed in one or more counterparts which, when fully executed by the parties, shall be treated as one agreement.

8. Advice of Counsel. The Company hereby advises Employee in writing to discuss this Release with an attorney before executing it. Employee further acknowledges that the Company will provide Employee twenty-one (21) days within which to review and consider this Release before signing it. Should Employee decide not to use the full twenty-one (21) days, then Employee knowingly and voluntarily waives any claims that he was not in fact given that period of time or did not use the entire twenty-one (21) days to consult an attorney and/or consider this Release.

9. Right to Revoke. The parties acknowledge and agree that Employee may revoke this Release for up to seven (7) calendar days following Employee's execution of this Release and that it shall not become effective or enforceable until the revocation period has expired. The parties further acknowledge and agree that such revocation must be in writing addressed to Steven C. McCracken, Chief Legal Officer of Callaway Golf Company (at the address shown below) and received by Steven C. McCracken not later than midnight on the seventh day following the execution of this Release by Employee. If Employee revokes this Release under this section, it shall not be effective or enforceable, and Employee will not receive the Payment described in section 1 above.

Steven C. McCracken
Chief Legal Officer
Callaway Golf Company
2180 Rutherford Road
Carlsbad, CA 92008

10. Effective Date. If Employee does not revoke this Release in the timeframe specified in section 9 above, the Release shall become effective at 12:01 a.m. on the eighth day after it is fully executed by the parties.

11. Severability. In the event any provision or provisions of this Release is or are held invalid, the remaining provisions of this Release shall not be affected thereby.

IN WITNESS WHEREOF, the parties hereto have executed this Release on the dates set forth below, to be effective as of the date first written above.

Employee	Company
	CALLAWAY GOLF COMPANY, a Delaware Corporation
/s/ CHARLES J. YASH - ---------------------------- Charles J. Yash	By: /s/ RONALD A. DRAPEAU ------------------------------ Ronald A. Drapeau, President and CEO
Dated: ----------------------	Dated: ----------------------------

EXHIBIT 10.53

EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of June 1, 2001, by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Company"), and ROBERT PENICKA ("Employee").

1. TERM.

(a) The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the period commencing June 1, 2001 and terminating December 31, 2002 (the "Initial Term"), unless this Agreement is earlier terminated as hereinafter provided.

(b) On December 31, 2002, and on each December 31 thereafter (the "Extension Dates"), the expiration date of this Agreement shall be automatically extended one (1) year, through December 31 of the following year, so long as (a) this Agreement is otherwise still in full force and effect, (b) Employee is still employed by the Company pursuant to this Agreement, (c) Employee is not otherwise in breach of this Agreement, and (d) neither the Company nor Employee has given notice as provided in Section 1(c) of this Agreement.

(c) At any time prior to an Extension Date, either Employee or the Company may give written notice to the other ("Notice") that the next automatic extension of the expiration date of this Agreement pursuant to Section 1(b) shall be the final such automatic extension of the expiration date of this Agreement. Thus, if either Employee or the Company gives Notice on or before December 31, 2002, and all other conditions for automatic extension of the expiration date of this Agreement pursuant to Section 1(b) exist, then on December 31, 2002 the expiration date of this Agreement shall be extended pursuant to Section 1(b) from December 31, 2002 to December 31, 2003, with this Agreement expiring on that date (if not earlier terminated pursuant to its terms) without any further automatic extensions.

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

2. SERVICES.

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

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

(c) The Company and Employee agree that the services being provided by Employee for the Company under the terms of this Agreement are unique and intellectual in character and that the Employee and Company are entering into this Agreement so that the Company will have the exclusive benefit of those services during the entire term of the Agreement and any extensions of the Agreement.

3. SERVICES TO BE EXCLUSIVE. During the term hereof, Employee agrees to devote his or her full productive time and best efforts to the performance of Employee's duties hereunder pursuant to the supervision and direction of the Company's Board of Directors and its Chief Executive Officer. Employee further agrees, as a condition to the performance by the Company of each and all of its obligations hereunder, that so long as Employee is employed by the Company or otherwise receiving compensation or other consideration from the Company, Employee will not directly or indirectly render

services of any nature to, otherwise become employed by, or otherwise participate or engage in any other business without the Company's prior written consent. Employee further agrees to execute such secrecy, non-disclosure, patent, trademark, copyright and other proprietary rights agreements, if any, as the Company may from time to time reasonably require. Nothing herein contained shall be deemed to preclude Employee from having outside personal investments and involvement with appropriate community activities, and from devoting a reasonable amount of time to such matters, provided that this shall in no manner interfere with or derogate from Employee's work for the Company.

4. COMPENSATION.

(a) The Company agrees to pay Employee a base salary at the rate of $400,000.00 per year effective June 1, 2001, prorated for the balance of 2001.

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

5. EXPENSES AND BENEFITS.

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

(b) Vacation. Employee shall receive four (4) weeks paid vacation for each twelve (12) month period of employment with the Company. The vacation may be taken any time during the year subject to prior approval by the Company, such approval not to be unreasonably withheld. Any unused vacation will be carried forward from year to year. The maximum vacation time Employee may accrue shall be three times Employee's annual vacation benefit. The Company reserves the right to pay Employee for unused, accrued vacation benefits in lieu of providing time off.

(c) Benefits. During Employee's employment with the Company pursuant to this Agreement, the Company shall provide for Employee to:

(i) participate in the Company's health insurance and disability insurance plans as the same may be modified from time to time;

(ii) receive, if Employee is insurable under usual underwriting standards, term life insurance coverage on Employee's life, payable to whomever the Employee directs, in the face amount of $1,000,000.00, provided that Employee's physical condition does not prevent Employee from qualifying for such insurance coverage under reasonable terms and conditions;

(iii) participate in the Company's 401(k) pension plan pursuant to the terms of the plan, as the same may be modified from time to time;

(iv) participate in the Company's Executive Deferred Compensation Plan, as the same may be modified from time to time; and

(v) participate in any other benefit plans the Company provides from time to time to executive officers. It is understood that benefit plans within the meaning of this subsection do not include compensation or bonus plans.

(d) Estate Planning and Other Perquisites. To the extent the Company provides tax and estate planning and related services, or any other perquisites and personal benefits to other executive officers generally from time to time, such services and perquisites shall be made available to Employee on the same terms and conditions.

6. TAX INDEMNIFICATION. Employee shall be indemnified by the Company for certain excise tax obligations, as more specifically set forth in Exhibit A to this Agreement.

7. NONCOMPETITION.

(a) Other Business. To the fullest extent permitted by law, Employee agrees that, while employed by the Company or otherwise receiving compensation or other consideration from the Company (including any severance pursuant to Section 8 of this Agreement), Employee will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) Other Employees. Except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company or any of its affiliates to terminate such employment while employed by the Company and for a period of one (1) year thereafter.

(c) Suppliers. While employed by the Company, and for one (1) year thereafter, Employee shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to the Company or any of its affiliates to diminish or cease furnishing such goods, services or credit.

(d) Conflict of Interest. While employed by the Company, Employee shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Employee's duties and obligations to the Company.

(e) Non-Interference. While employed by the Company, and for one (1) year thereafter, Employee shall not in any way undertake to harm, injure or disparage the Company, its officers, directors, employees, agents, affiliates, vendors, products, or customers, or their successors, or in any other way exhibit an attitude of hostility toward them. Employee understands that it is the policy of the Company that only the Chief Executive Officer, the Vice President of Press, Public and Media Relations and their specific designees may speak to the press or media about the Company or its business, and agrees not to interfere with the Company's press and public relations by violating this policy.

8. TERMINATION.

(a) Termination at the Company's Convenience. Employee's employment under this Agreement may be terminated by the Company at its convenience at any time. In the event of a termination by the Company for its convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's then current salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the Initial Term of this Agreement or twelve (12) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of twelve (12) months from the date of termination; and (iii) no other severance.

(b) Termination by the Company for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by the Company for substantial cause at any time. In the event of a termination by the Company for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) no other severance. "Substantial cause" shall mean for purposes of this subsection failure by Employee to substantially perform his or her duties, material breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of illegal drugs during work, and/or felony criminal conduct.

(c) Termination by Employee for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by Employee for substantial cause at any time. In the event of a termination by Employee for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's then current salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the Initial Term of this Agreement or twelve (12) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of twelve (12) months from the date of termination; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company.

(d) Termination Due to Permanent Disability. Subject to all applicable laws, Employee's employment under this Agreement may be terminated immediately by the Company in the event Employee becomes permanently disabled. Permanent disability shall be defined as Employee's failure to perform or being unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of more than six (6) months on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three qualified physicians, one of which has been selected by the Company, one of which has been selected by Employee, and one of which has been selected by the two other physicians jointly. In the event of a termination by the Company due to Employee's permanent disability, Employee shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) severance payments equal to Employee's then current salary at the same rate and on the same schedule as in effect at the time of termination for a period of twelve (12) months from the date of termination; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; (iv) the payment of premiums owed for COBRA insurance benefits for a period of twelve (12) months from the date of termination; and (v) no other severance. The Company shall be entitled to take, as an offset against any amounts due pursuant to subsections (i) and (ii) above, any amounts received by Employee pursuant to disability or other insurance, or similar sources, provided by the Company.

(e) Termination Due to Death. Employee's employment under this Agreement shall be terminated immediately by the Company in the event of Employee's death. In the event of a termination due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of death; (ii) severance payments equal to Employee's then current base salary at the same rate and on the same schedule as in effect at the time of death for a period of twelve (12) months from the date of death; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of the date of death in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's death; and (iv) no other severance.

(f) Any severance payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements. Except for such severance pay and other amounts specifically provided pursuant to this Section 8, Employee shall not be entitled to any further compensation, bonus, damages, restitution, relocation benefits, or other severance benefits upon termination of employment. The amounts payable to Employee pursuant to this Section 8 shall not be treated as damages, but as severance compensation to which Employee is entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee hereunder any amounts earned by Employee in other employment after termination of his or her employment with the Company pursuant to this Agreement, or any amounts which might have been earned by Employee in other employment had Employee sought such other employment. The provisions of this Section 8 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company regarding any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(g) Termination By Mutual Agreement of the Parties. Employee's employment pursuant to this Agreement may be terminated at any time upon the mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

(h) Pre-Termination Rights. The Company shall have the right, at its option, to require Employee to vacate his or her office or otherwise remain off the Company's premises and to cease any and all activities on the Company's behalf without such action constituting a termination of employment or a breach of this Agreement.

9. RIGHTS UPON A CHANGE IN CONTROL.

(a) If a Change in Control (as defined in Exhibit B hereto) occurs before the termination of Employee's employment hereunder, then this Agreement shall be automatically renewed (the "Renewed Employment Agreement") in the same form and substance as in effect immediately prior to the Change in Control, except that the Initial Term, as specified pursuant to Section 1 of this Agreement, shall be two (2) years commencing with the effective date of the Change in Control, and the Extension Dates shall commence with the second anniversary of the effective date of the Change in Control.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one (1) year following any Change in Control that occurs during the term of this Agreement there is a Termination Event (as defined below), Employee shall be treated as if he or she had been terminated for the convenience of the Company pursuant to Section 8(a), and Employee shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a), as appropriate, of this Agreement. Furthermore, the provisions of Section 8 shall continue to apply during the term of the Renewed Employment Agreement except that, in the event of a conflict between Section 8 and the rights of Employee described in this Section 9, the provisions of this Section 9 shall govern.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of the Employee's permanent disability (defined in Section 8(d)), Employee's death, and any of the factors enumerated in Section 8(b) providing for termination by the Company for substantial cause:

(i) the termination or material breach of this Agreement by the Company;

(ii) a failure by the Company to obtain the assumption of this Agreement by any successor to the Company or any assignee of all or substantially all of the Company's assets;

(iii) any material diminishment in the title, position, duties, responsibilities or status that Employee had with the Company, as a publicly traded entity, immediately prior to the Change in Control;

(iv) any reduction, limitation or failure to pay or provide any of the compensation, reimbursable expenses, stock options, incentive programs, or other benefits or perquisites provided to Employee under the terms of this Agreement or any other agreement or understanding between the Company and Employee, or pursuant to the Company's policies and past practices as of the date immediately prior to the Change in Control; or

(v) any requirement that Employee relocate or any assignment to Employee of duties that would make it unreasonably difficult for Employee to maintain the principal residence he or she had immediately prior to the Change in Control.

10. SURRENDER OF EQUIPMENT, BOOKS AND RECORDS. Employee understands and agrees that all equipment, books, records, customer lists and documents connected with the business of the Company and/or its affiliates are the property of and belong to the Company. Under no circumstances shall Employee remove from the Company's facilities any of the Company's and/or its affiliates' equipment, books, records, documents, lists or any copies of the same without the Company's permission, nor shall Employee make any copies of the Company's and/or its affiliates' books, records, documents or lists for use outside the Company's office except as specifically authorized by the Company. Employee shall return to the Company and/or its affiliates all equipment, books, records, documents and customer lists belonging to the Company and/or its affiliates upon termination of Employee's employment with the Company.

11. GENERAL RELATIONSHIP. Employee shall be considered an employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

12. TRADE SECRETS AND CONFIDENTIAL INFORMATION.

(a) As used in this Agreement, the term "Trade Secrets and Confidential Information" means information, whether written or oral, not generally available to the public, regardless of whether it is suitable to be patented, copyrighted and/or trademarked, which is received from the Company and/or its affiliates, either directly or indirectly, including but not limited to (i) concepts, ideas, plans and strategies involved in the Company's and/or its affiliates' products, (ii) the processes, formulae and techniques disclosed by the Company and/or its affiliates to Employee or observed by Employee, (iii) the designs, inventions and innovations and related plans, strategies and applications which Employee develops during the term of this Agreement in connection with the work performed by Employee for the Company and/or its affiliates; and (iv) third party information which the Company and/or its affiliates has/have agreed to keep confidential.

(b) Notwithstanding the provisions of subsection 12(a), the term "Trade Secrets and Confidential Information" does not include (i) information which, at the time of disclosure or observation, had been previously published or otherwise publicly disclosed; (ii) information which is published (or otherwise publicly disclosed) after disclosure or observation, unless such publication is a breach of this Agreement or is otherwise a violation of contractual, legal or fiduciary duties owed to the Company, which violation is known to Employee; or (iii) information which, subsequent to disclosure or observation, is obtained by Employee from a third person who is lawfully in possession of such information (which information is not acquired in violation of any contractual, legal, or fiduciary obligation owed to the Company with respect to such information, and is known by Employee) and who is not required to refrain from disclosing such information to others.

(c) While employed by the Company, Employee will have access to and become familiar with various Trade Secrets and Confidential Information. Employee acknowledges that the Trade Secrets and Confidential Information are owned and shall continue to be owned solely by the Company and/or its affiliates. Employee agrees that Employee will not, at any time, whether during or subsequent to

Employee's employment by the Company and/or its affiliates, use or disclose Trade Secrets and Confidential Information for any competitive purpose or divulge the same to any person other than the Company or persons with respect to whom the Company has given its written consent, unless Employee is compelled to disclose it by governmental process. In the event Employee believes that Employee is legally required to disclose any Trade Secrets or Confidential Information, Employee shall give reasonable notice to the Company prior to disclosing such information and shall assist the Company in taking such legally permissible steps as are reasonable and necessary to protect the Trade Secrets or Confidential Information, including, but not limited to, execution by the receiving party of a non-disclosure agreement in a form acceptable to the Company.

(d) The provisions of this Section 12 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

13. ASSIGNMENT OF RIGHTS.

(a) As used in this Agreement, "Designs, Inventions and Innovations," whether or not they have been patented, trademarked, or copyrighted, include, but are not limited to designs, inventions, innovations, ideas, improvements, processes, sources of and uses for materials, apparatus, plans, systems and computer programs relating to the design, manufacture, use, marketing, distribution and management of the Company's and/or its affiliates' products.

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

(c) Employee agrees to disclose in writing to the President and CEO of the Company any Design, Invention or Innovation relating to the business of the Company and/or its affiliates, which Employee develops, conceives and/or reduces to practice in connection with any work performed by Employee for the Company, either alone or with anyone else, while employed by the Company and/or within twelve (12) months of the termination of employment. Employee shall disclose all Designs, Inventions and Innovations to the Company, even if Employee does not believe that he or she is required under this Agreement, or pursuant to California Labor Code Section 2870, to assign his or her interest in such Design, Invention or Innovation to the Company. If the Company and Employee disagree as to whether or not a Design, Invention or Innovation is included within the terms of this Agreement, it will be the responsibility of Employee to prove that it is not included.

(d) Pursuant to California Labor Code Section 2870, the obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation to the extent such obligation would conflict with any state or federal law. The obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation that Employee developed entirely on Employee's own time without using the Company's equipment, supplies, facilities or Trade Secrets and Confidential Information except those Designs, Inventions or Innovations that either:

(i) Relate at the time of conception or reduction to practice to the Company's and/or its affiliates' business, or actual or demonstrably anticipated research of the Company and/or its affiliates; or

(ii) Result from any work performed by Employee for the Company and/or its affiliates.

(e) Employee agrees that any Design, Invention and/or Innovation which is required under the provisions of this Agreement to be assigned to the Company shall be the sole and exclusive property of the Company. Upon the Company's request, at no expense to Employee, Employee shall execute any and all proper applications for patents, copyrights and/or trademarks, assignments to the Company, and all other applicable documents, and will give testimony when and where requested to perfect the title and/or patents (both within and without the United States) in all Designs, Inventions and Innovations belonging to the Company.

(f) The provisions of this Section 13 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

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

15. ATTORNEYS' FEES AND COSTS. If any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute or default in connection with any of its provisions, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in such action or proceeding.

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Employee or the Company. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

17. NOTICES. Any notice, request, demand, or other communication required or permitted hereunder, shall be deemed properly given when actually received or within five (5) days of mailing by certified or registered mail, postage prepaid, to:

Employee: Robert Penicka
3321 Avenida Nieve
Carlsbad, California 92009

Company: Callaway Golf Company
2180 Rutherford Road
Carlsbad, California 92008
Attn: Steven C. McCracken
Senior Executive Vice President, Chief Legal Officer

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

18. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) EMPLOYEE AND THE COMPANY AGREE THAT ANY DISPUTE, CONTROVERSY OR CLAIM ARISING HEREUNDER OR IN ANY WAY RELATED TO THIS AGREEMENT, ITS INTERPRETATION, ENFORCEABILITY, OR APPLICABILITY, OR RELATING TO EMPLOYEE'S EMPLOYMENT, OR THE TERMINATION THEREOF, THAT CANNOT BE RESOLVED BY MUTUAL AGREEMENT OF THE PARTIES SHALL BE SUBMITTED TO BINDING ARBITRATION. THIS INCLUDES, BUT IS NOT LIMITED TO, ALLEGED VIOLATIONS OF FEDERAL, STATE AND/OR LOCAL STATUTES, CLAIMS BASED ON ANY PURPORTED BREACH OF DUTY ARISING IN CONTRACT OR TORT, INCLUDING BREACH OF CONTRACT, BREACH OF THE COVENANT OF GOOD FAITH AND FAIR DEALING, VIOLATION OF PUBLIC POLICY, VIOLATION OF ANY STATUTORY, CONTRACTUAL OR COMMON LAW RIGHTS, BUT EXCLUDING WORKERS' COMPENSATION, UNEMPLOYMENT MATTERS, OR ANY MATTER FALLING WITHIN THE JURISDICTION OF THE STATE LABOR COMMISSIONER. THE PARTIES AGREE THAT ARBITRATION IS THE PARTIES' ONLY RECOURSE FOR SUCH CLAIMS AND HEREBY WAIVE THE RIGHT TO

PURSUE SUCH CLAIMS IN ANY OTHER FORUM, UNLESS OTHERWISE PROVIDED BY LAW. ANY COURT ACTION INVOLVING A DISPUTE WHICH IS NOT SUBJECT TO ARBITRATION SHALL BE STAYED PENDING ARBITRATION OF ARBITRABLE DISPUTES.

(b) EMPLOYEE AND THE COMPANY AGREE THAT THE ARBITRATOR SHALL HAVE THE AUTHORITY TO ISSUE PROVISIONAL RELIEF. EMPLOYEE AND THE COMPANY FURTHER AGREE THAT EACH HAS THE RIGHT, PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 1281.8, TO APPLY TO A COURT FOR A PROVISIONAL REMEDY IN CONNECTION WITH AN ARBITRABLE DISPUTE SO AS TO PREVENT THE ARBITRATION FROM BEING RENDERED INEFFECTIVE.

(c) ANY DEMAND FOR ARBITRATION SHALL BE IN WRITING AND MUST BE COMMUNICATED TO THE OTHER PARTY PRIOR TO THE EXPIRATION OF THE APPLICABLE STATUTE OF LIMITATIONS.

(d) THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE PROCEDURAL RULES STATED IN THE NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA"). THE ARBITRATION SHALL BE CONDUCTED IN SAN DIEGO BY A FORMER OR RETIRED JUDGE OR ATTORNEY WITH AT LEAST 10 YEARS EXPERIENCE IN EMPLOYMENT-RELATED DISPUTES, OR A NON-ATTORNEY WITH LIKE EXPERIENCE IN THE AREA OF DISPUTE, WHO SHALL HAVE THE POWER TO HEAR MOTIONS, CONTROL DISCOVERY, CONDUCT HEARINGS AND OTHERWISE DO ALL THAT IS NECESSARY TO RESOLVE THE MATTER. THE PARTIES MUST MUTUALLY AGREE ON THE ARBITRATOR. IF THE PARTIES CANNOT AGREE ON THE ARBITRATOR AFTER THEIR BEST EFFORTS, AN ARBITRATOR FROM THE AMERICAN ARBITRATION ASSOCIATION WILL BE SELECTED PURSUANT TO THE AMERICAN ARBITRATION ASSOCIATION NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES. THE COMPANY SHALL PAY THE COSTS OF THE ARBITRATOR'S FEES.

(e) THE ARBITRATION WILL BE DECIDED UPON A WRITTEN DECISION OF THE ARBITRATOR STATING THE ESSENTIAL FINDINGS AND CONCLUSIONS UPON WHICH THE AWARD IS BASED. THE ARBITRATOR SHALL HAVE THE AUTHORITY TO AWARD DAMAGES, IF ANY, TO THE EXTENT THAT THEY ARE AVAILABLE UNDER APPLICABLE LAW(S). THE ARBITRATION AWARD SHALL BE FINAL AND BINDING, AND MAY BE ENTERED AS A JUDGMENT IN ANY COURT HAVING COMPETENT JURISDICTION. EITHER PARTY MAY SEEK REVIEW PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 1286, ET SEQ.

(f) IT IS EXPRESSLY UNDERSTOOD THAT THE PARTIES HAVE CHOSEN ARBITRATION TO AVOID THE BURDENS, COSTS AND PUBLICITY OF A COURT PROCEEDING, AND THE ARBITRATOR IS EXPECTED TO HANDLE ALL ASPECTS OF THE MATTER, INCLUDING DISCOVERY AND ANY HEARINGS, IN SUCH A WAY AS TO MINIMIZE THE EXPENSE, TIME, BURDEN AND PUBLICITY OF THE PROCESS, WHILE ASSURING A FAIR AND JUST RESULT. 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.

THE PARTIES HAVE READ SECTION 18 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

______ (EMPLOYEE)   ______ (COMPANY)

19. MISCELLANEOUS.

(a) Headings. The headings of the several sections and paragraphs of this Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction of any term or provision hereof.

(b) Waiver. Failure of either party at any time to require performance by the other of any provision of this Agreement shall in no way affect that party's rights thereafter to enforce the same, nor shall the waiver by either party of any breach of any provision hereof be held to be a waiver of any succeeding breach of any provision or a waiver of the provision itself.

(c) Applicable Law. This Agreement shall constitute a contract under the internal laws of the State of California and shall be governed and construed in accordance with the laws of said state as to both interpretation and performance.

(d) Severability. In the event any provision or provisions of this Agreement is or are held invalid, the remaining provisions of this Agreement shall not be affected thereby.

(e) Advertising Waiver. Employee agrees to permit the Company and/or its affiliates, and persons or other organizations authorized by the Company and/or its affiliates, to use, publish and distribute advertising or sales promotional literature concerning the products of the Company and/or its affiliates, or the machinery and equipment used in the manufacture thereof, in which Employee's name and/or pictures of Employee taken in the course of Employee's provision of services to the Company and/or its affiliates, appear. Employee hereby waives and releases any claim or right Employee may otherwise have arising out of such use, publication or distribution.

(f) Counterparts. This Agreement may be executed in one or more counterparts which, when fully executed by the parties, shall be treated as one agreement.

20. CONDITIONS ON SPECIAL SEVERANCE. Notwithstanding anything else to the contrary, it is expressly understood that any obligation of the Company to pay Special Severance pursuant to this Agreement shall be subject to:

(a) Employee's continued compliance with the terms and conditions of Sections 7(a), 7(b), 7(c), 7(e), 12, 13 and 18;

(b) Employee must not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business which engages directly or indirectly in competition with the businesses of the Company or any of its affiliates, or have any interest, direct or indirect, in any person, firm, corporation, or venture which directly or indirectly competes with the businesses of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund; and

(c) Employee must not, directly, indirectly, or in any other way, disparage the Company, its officers or employees, vendors, customers, products or activities, or otherwise interfere with the Company's press, public and media relations.

21. SUPERSEDES OLD OFFICER EMPLOYMENT AGREEMENT. Employee and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Officer Employment Agreement effective June 1, 2000 (the "Old Officer Employment Agreement"). It is the intent of the parties that as of the effective date of this Agreement, this Agreement shall replace and supersede the Old Officer Employment Agreement entirely, that the Old Officer Employment Agreement shall no longer be of any force or effect except as to Sections 7, 12, 13, 15 and 18 thereof, and that to the extent there is any conflict between the Old Officer Employment Agreement and this Agreement, this Agreement

shall control and all agreements shall be construed so as to give the maximum force and effect to the provisions of this Agreement.

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

EMPLOYEE	COMPANY
	Callaway Golf Company, a Delaware corporation
/s/ ROBERT PENICKA	By: /s/ RONALD A. DRAPEAU
Robert Penicka	Ronald A. Drapeau President and Chief Executive Officer

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Employee's Executive Officer Employment Agreement ("Section 6"), the Company agrees to indemnify Employee with respect to certain excise tax obligations as follows:

1. Definitions. For purposes of Section 6 and this Exhibit A, the following terms shall have the meanings specified herein:

(a) "Claim" shall mean any written claim (whether in the form of a tax assessment, proposed tax deficiency or similar written notification) by the Internal Revenue Service or any state or local tax authority that, if successful, would result in any Excise Tax or an Underpayment.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended. All references herein to any section, subsection or other provision of the Code shall be deemed to refer to any successor thereto.

(c) "Excise Tax" shall mean (i) any excise tax imposed by Section 4999 of the Code or any comparable federal, state or local tax, and (ii) any interest and/or penalties incurred with respect to any tax described in 1(c)(i).

(d) Gross-Up Payment shall mean a cash payment as specified in Section 2.

(e) "Overpayment" and "Underpayment" shall have the meanings specified in Section 4.

(f) "Payment" shall mean any payment, benefit or distribution (including, without limitation, cash, the acceleration of the granting, vesting or exercisability of stock options or other incentive awards, or the accrual or continuation of any other payments or benefits) granted or paid to or for the benefit of Employee by the Company or by any person or persons whose actions result in a Taxable Event (as defined in this Section), or by any person affiliated with the Company or such person(s), whether paid or payable pursuant to the terms of this Agreement or otherwise. Notwithstanding the foregoing, a Payment shall not include any Gross-Up Payment required under Section 6 and this Exhibit A

(g) "Taxable Event" shall mean any change in control or other event which triggers the imposition of any Excise Tax on any Payment.

2. In the event that any Payment is determined to be subject to any Excise Tax, then Employee shall be entitled to receive from the Company a Gross-Up Payment in an amount such that, after the payment of all income taxes, Excise Taxes and any other taxes imposed with respect to the Gross-Up Payment (together with payment of all interest and penalties imposed with respect to any such taxes), Employee shall retain a net amount of the Gross-Up Payment equal to the Excise Tax imposed with respect to the Payments.

3. All determinations required to be made under Section 6 and this Exhibit A, including, without limitation, whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment, and the assumptions to be utilized in arriving at such determinations, shall be made by the accounting firm of Pricewaterhouse Coopers LLP or, if applicable, its successor as the Company's independent auditor (the "Accounting Firm"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Taxable Event to which a possible Gross-Up Payment is related, another nationally recognized accounting firm that is mutually acceptable to the Company and Employee shall be appointed to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). The Accounting Firm shall provide detailed supporting calculations to the Company and to Employee regarding the amount of Excise

Tax (if any) which is payable, and the Gross-Up Payment (if any) required hereunder, with respect to any Payment or Payments, with such calculations to be provided at such time as may be requested by the Company but in no event later than fifteen (15) business days following receipt of a written notice from Employee that there has been a Payment that may be subject to an Excise Tax. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment as determined pursuant to Section 6 and this Exhibit A shall be paid by the Company to Employee within five (5) business days after receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Employee, the Accounting Firm shall furnish Employee with a written opinion that failure to disclose, report or pay the Excise Tax on Employee's federal or other applicable tax returns will not result in the imposition of a negligence penalty, understatement penalty or other similar penalty. All determinations by the Accounting Firm shall be binding upon the Company and Employee in the absence of clear and indisputable mathematical error. Following receipt of a Gross-Up Payment as provided herein, Employee shall be obligated to properly and timely report his Excise Tax liability on the applicable tax returns or reports and to pay the full amount of Excise Tax with funds provided through such Gross-Up Payment. Notwithstanding the foregoing, if the Company reasonably determines that the Employee will be unable or otherwise may fail to make such Excise Tax payment, the Company may elect to pay the Excise Tax to the Internal Revenue Service and/or other applicable tax authority on behalf of the Employee, in which case the Company shall pay the net balance of the Gross-Up Payment (after deduction of such Excess Tax payment) to the Employee.

4. As a result of uncertainty in the application of Section 4999 of the Code, it is possible that a Gross-Up Payment will not have been made by the Company that should have been made (an "Underpayment") or that a Gross-Up Payment is made that should not have been made (an "Overpayment"). In the event that Employee is required to make a payment of any Excise Tax, due to an Underpayment, the Accounting Firm shall determine the amount of Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to Employee in which case Employee shall be obligated to make a timely payment of the full amount of the applicable Excise Tax to the applicable tax authority, provided, however, the Company may elect to pay the Excise Tax to the applicable tax authority on behalf of Employee consistent with the provisions of Section 3, in which case the Company shall pay the net balance of the Underpayment (after deduction of such Excise Tax payment) to Employee. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be repaid by Employee to the Company within ninety (90) days after written demand to Employee by the Company, provided, however, that Employee shall have no obligation to repay any amount of the Overpayment that has been paid to, and not recovered from, a tax authority, provided further, however, in such event the Company may direct Employee to prosecute a claim for a refund of such amount consistent with the principles set forth in Section 5.

5. Employee shall notify the Company in writing of any Claim. Such notice (a) shall be given as soon as practicable, but in no event later than fifteen (15) business days, following Employee's receipt of written notice of the Claim from the applicable tax authority, and (b) shall include a compete and accurate copy of the tax authority's written Claim or otherwise fully inform the Company of the nature of the Claim and the date on which any payment of the Claim must be paid, provided that Employee shall not be required to give notice to the Company of facts of which the Company is already aware, and provided further that failure or delay by Employee to give such notice shall not constitute a breach of Section 6 or this Exhibit A except to the extent that the Company is prejudiced thereby. Employee shall not pay any portion of a Claim prior to the earlier of (a) the expiration of thirty (30) days following the date on which Employee gives the foregoing notice to the Company, (b) the date that any Excise Tax payment under the Claim is due, or (c) the date the Company notifies Employee that it does not intend to contest the Claim. If, prior to expiration of such period, the Company notifies Employee in writing that it desires to contest the Claim, Employee shall:

(a) give the Company any information reasonably requested by the Company relating to the Claim;

(b) take such action in connection with contesting the Claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to the Claim by an attorney selected and compensated by the Company who is reasonably acceptable to Employee;

(c) cooperate with the Company in good faith in order to effectively contest the Claim; and

(d) permit the Company to participate (at its expense) in any and all proceedings and conferences pertaining to the Claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including, without limitation, additional interest and penalties and attorneys' fees) incurred in connection with any such contest, and shall indemnify and hold Employee harmless, on an after-tax basis, for any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and all costs imposed or incurred in connection with such contests. Without limitation upon the foregoing provisions of this Section 5, and except as provided below, the Company shall control all proceedings concerning any such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with tax authorities pertaining to the Claim. At the written request of the Company, and upon payment to Employee of an amount at least equal to the Claim plus any additional amount necessary to obtain the jurisdiction of the appropriate tribunal and/or court, Employee shall pay the same and sue for a refund or otherwise contest the Claim in any permissible manner as directed by the Company. Employee agrees to prosecute any contest of a Claim to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine, provided, however, that if the Company requests Employee to pay the Claim and sue for a refund, the Company shall indemnify and hold Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and costs imposed or incurred in connection with such contest or with respect to any imputed income attributable to any advances or payments by the Company hereunder. Any extension of the statute of limitations relating to assessment of any Excise Tax for the taxable year of Employee which is the subject of a Claim is to be limited solely to the Claim. Furthermore, the Company's control of a contest as provided hereunder shall be limited to issues for which a Gross-Up Payment would be payable hereunder, and Employee shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other tax authority.

6. If Employee receives a refund from a tax authority of all or any portion of an Excise Tax paid by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, Employee shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). Employee shall, if so directed by the Company, file and otherwise prosecute a claim for refund of any Excise Tax payment made by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, with any such refund claim to be effected in accordance with the principles set forth in Section 5. If a determination is made that Employee shall not be entitled to any refund and the Company does not notify Employee in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then Employee shall have no further obligation hereunder to contest such denial or to repay to the Company the amount involved in such unsuccessful refund claim. The amount of any advances which are made by the Company in connection with any such refund claim hereunder, to the extent not refunded by the applicable tax authority to Employee, shall offset, as appropriate consistent with the purposes of Section 6 and this Exhibit A, the amount of any Gross-Up Payment required hereunder to be paid by the Company to Employee.

EXHIBIT B

CHANGE IN CONTROL

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

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

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

3. Consummation by the Company of the sale or other disposition by the Company of all or substantially all of the Company's assets or a reorganization or merger or consolidation of the Company with any other person, entity or corporation, other than

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

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

4. Approval by the shareholders of the Company or an order by a court of competent jurisdiction of a plan of liquidation of the Company.