

PART I

Item 1. *Business*

Callaway Golf Company (the “Company” or “Callaway Golf”) was incorporated in California in 1982 with the main purpose of designing, manufacturing and selling high quality golf clubs. The Company became a publicly traded corporation in 1992, and in 1999, reincorporated in the state of Delaware. The Company has evolved over time from a manufacturer of golf clubs to one of the leading manufacturers and distributors of a full line of golf equipment and accessories.

Today, the Company, together with its subsidiaries, designs, manufactures and sells high quality golf clubs (drivers, fairway woods, hybrids, irons, wedges and putters) and golf balls, and also sells golf accessories (such as GPS range finders, golf bags, gloves, footwear, apparel, headwear, eyewear, towels and umbrellas) under the Callaway Golf, Odyssey, Top-Flite and uPro brand names. The Company generally sells its products to retailers, directly and through its wholly-owned subsidiaries, and to third-party distributors. The Company sells pre-owned golf products through its website, www.callawaygolfpreowned.com. In addition, the Company sells Callaway Golf, Top-Flite and Odyssey products direct to consumers online through its website www.shop.callawaygolf.com. The Company also licenses its trademarks and service marks in exchange for a royalty fee to third parties for use on golf and lifestyle products, including apparel, rangefinders, practice aids and travel gear. The Company’s products are sold in the United States and in over 100 countries around the world.

Financial Information about Segments and Geographic Areas

Information regarding the Company’s segments and geographic areas in which the Company operates is contained in Note 19 to the Notes to the Company’s Consolidated Financial Statements for the years ended December 31, 2011, 2010 and 2009, which note is incorporated herein by this reference and is included as part of Item 8—“Financial Statements and Supplementary Data.”

Products

The Company designs, manufactures and sells high quality golf clubs and golf balls, and designs and sells golf accessories. The Company designs its products to be technologically advanced and in this regard invests a considerable amount in research and development each year. The Company’s products are designed for golfers of all skill levels, both amateur and professional, and are generally designed to conform to the Rules of Golf as published by the United States Golf Association (“USGA”) and the R&A Rules Limited (the “R&A”). For further discussion on certain risks associated with product design and development, see below, “Certain Factors Affecting Callaway Golf Company,” contained in Item 1A.

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

	Year Ended December 31,					
	2011	2010 ⁽¹⁾		2009 ⁽¹⁾		
	(Dollars in millions)					
Drivers, fairway woods and hybrids	\$212.9	24%	\$225.2	23%	\$223.2	23%
Irons	207.8	24%	223.9	23%	232.7	25%
Putters	88.8	10%	106.3	11%	98.3	10%
Golf balls	160.4	18%	176.6	18%	178.7	19%
Accessories and other	216.6	24%	235.7	25%	217.9	23%
Net sales	<u>\$886.5</u>	<u>100%</u>	<u>\$967.7</u>	<u>100%</u>	<u>\$950.8</u>	<u>100%</u>

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