

CALLAWAY GOLF CO
Form DEF 14A
April 04, 2008
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

Confidential, for Use of the Commission Only

(as permitted by Rule 14a-6(e)(2))

Callaway Golf Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

6. Amount Previously Paid:

7. Form, Schedule or Registration Statement No.:

8. Filing Party:

9. Date Filed:

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April 4, 2008

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Callaway Golf Company, which will be held on Tuesday, May 20, 2008, at Callaway Golf Company, 2180 Rutherford Road, Carlsbad, California 92008, commencing at 10:00 a.m. (PDT). A map is provided on the back page of these materials for your reference. Your Board of Directors and management look forward to greeting personally those shareholders who are able to attend.

At the meeting, your Board of Directors will ask shareholders to elect seven directors and ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm. These matters are described more fully in the accompanying Proxy Statement, which you are urged to read thoroughly. Your Board of Directors recommends a vote FOR each of the nominees and FOR ratification of the appointment of the Company's independent registered public accounting firm.

It is important that your shares are represented and voted at the meeting whether or not you plan to attend. Accordingly, you are requested to return a proxy as promptly as possible either by voting through the Internet or by telephone or by signing, dating, and returning a proxy card in accordance with the enclosed instructions.

Sincerely,
George Fellows
President and Chief Executive Officer

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CALLAWAY GOLF COMPANY

2180 Rutherford Road

Carlsbad, California 92008

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Meeting Date: May 20, 2008

To Our Shareholders:

The 2008 Annual Meeting of Shareholders (the **Annual Meeting**) of Callaway Golf Company, a Delaware corporation, (the **Company**) is scheduled to be held at Callaway Golf Company, 2180 Rutherford Road, Carlsbad, California 92008, commencing at 10:00 a.m. (PDT), on Tuesday, May 20, 2008, to consider and vote upon the following matters described in this notice and the accompanying Proxy Statement:

1. To elect seven directors to the Company's Board of Directors to serve until the 2009 annual meeting of shareholders and until their successors are elected and qualified;
2. To ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008; and
3. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The Board of Directors has nominated the following seven individuals to stand for election to the Board of Directors at the Annual Meeting: George Fellows, Samuel H. Armacost, Ronald S. Beard, John C. Cushman, III, Yotaro Kobayashi, Richard L. Rosenfield and Anthony S. Thornley. All seven are currently members of the Company's Board of Directors. For more information concerning these individuals, please see the accompanying Proxy Statement.

The Board of Directors has fixed the close of business on March 24, 2008 as the record date for determination of shareholders entitled to receive notice of and to vote at the Annual Meeting or any adjournment or postponement thereof, and only record holders of common stock at the close of business on that day will be entitled to vote. At the record date, 66,275,077 shares of common stock were issued and outstanding. In order to constitute a quorum for the conduct of business at the Annual Meeting, it is necessary that holders of a majority of all outstanding shares of common stock of the Company be present in person or represented by proxy.

TO ASSURE REPRESENTATION AT THE ANNUAL MEETING, SHAREHOLDERS ARE URGED TO RETURN A PROXY AS PROMPTLY AS POSSIBLE EITHER BY VOTING THROUGH THE INTERNET OR BY TELEPHONE OR BY SIGNING, DATING, AND RETURNING A PROXY CARD IN ACCORDANCE WITH THE ENCLOSED INSTRUCTIONS. ANY SHAREHOLDER ATTENDING THE ANNUAL MEETING MAY VOTE IN PERSON EVEN IF HE OR SHE PREVIOUSLY RETURNED A PROXY.

If you plan to attend the Annual Meeting in person, we would appreciate your response by so indicating when returning the proxy.

By Order of the Board of Directors,
Steven C. McCracken

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Secretary

Carlsbad, California

April 4, 2008

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CALLAWAY GOLF COMPANY

2180 Rutherford Road

Carlsbad, California 92008

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

Meeting Date: May 20, 2008

GENERAL INFORMATION

Purpose

This Proxy Statement and accompanying proxy card will first be made available to shareholders on the Internet on or about April 10, 2008 in connection with the solicitation of proxies by the Board of Directors of Callaway Golf Company, a Delaware corporation (the Company). The proxies are for use at the 2008 Annual Meeting of Shareholders of the Company, which will be held on Tuesday, May 20, 2008, at Callaway Golf Company, 2180 Rutherford Road, Carlsbad, California 92008, commencing at 10:00 a.m. (PDT), and at any meetings held upon adjournment or postponement thereof (the Annual Meeting). The record date for the Annual Meeting is the close of business on March 24, 2008 (the Record Date). Only holders of record of the Company's common stock, \$.01 par value (the Common Stock), on the Record Date are entitled to notice of the Annual Meeting and to vote at the Annual Meeting.

Quorum and Voting

Whether or not you plan to attend the Annual Meeting in person, please return a proxy indicating how you wish your shares to be voted as promptly as possible. You may return a proxy either by voting through the Internet or by telephone or by signing, dating and returning a proxy card. Please follow the accompanying instructions. Any shareholder who returns a proxy has the power to revoke it at any time prior to its effective use either by filing with the Secretary of the Company a written instrument revoking it, or by returning (by mail, telephone or Internet) another later-dated proxy, or by attending the Annual Meeting and voting in person. If you sign and return your proxy but do not indicate how you want to vote your shares for each proposal, then for any proposal for which you do not so indicate, your shares will be voted at the Annual Meeting in accordance with the recommendation of the Board of Directors. The Board of Directors recommends a vote **FOR** each of the nominees for election as director as set forth in this Proxy Statement and **FOR** ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008. By returning the proxy (either by mail, telephone or Internet), unless you notify the Secretary of the Company in writing to the contrary, you are also authorizing the proxies to vote with regard to any other matter which may properly come before the Annual Meeting or any adjournment or postponement thereof. The Company does not currently know of any such other matter. If there were any such additional matters, the proxies would vote your shares in accordance with the recommendation of the Board of Directors.

At the Record Date, there were 66,275,077 shares of the Company's Common Stock issued and outstanding. No other voting securities of the Company were outstanding at the Record Date. The presence, either in person or by proxy, of persons entitled to vote a majority of the Company's outstanding Common Stock is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Abstentions may be specified for all proposals except the election of directors. Under the rules of the New York Stock Exchange (NYSE), brokers who hold shares in street name for customers do not have the authority to vote on certain items when they have not received instructions from beneficial owners (broker non-votes). Abstentions and broker non-votes are counted for purposes of determining a quorum. Abstentions are counted in the

tabulation of votes cast and

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have the same effect as voting against a proposal. Broker non-votes are not considered as having voted for purposes of determining the outcome of a vote. The election of directors (Proposal No. 1) and ratification of the appointment of independent registered public accounting firm (Proposal No. 2) being voted upon at the Annual Meeting are considered routine and brokers may generally vote on such proposals in their discretion if they do not receive instructions from the beneficial owners.

Holders of Common Stock have one vote for each share on any matter that may be presented for consideration and action by the shareholders at the Annual Meeting, except that shareholders have cumulative voting rights with respect to the election of directors. Cumulative voting rights entitle each shareholder to cast as many votes as are equal to the number of directors to be elected multiplied by the number of shares owned by such shareholder, which votes may be cast for one candidate or distributed among two or more candidates. A shareholder may exercise cumulative voting rights by indicating on the proxy card the manner in which such votes should be allocated. The seven nominees for director receiving the highest number of votes at the Annual Meeting will be elected. A return of a proxy giving authority to vote for the nominees named in this Proxy Statement will also give discretion to the proxies to vote shares cumulatively for one or more nominees so as to elect the maximum number of directors recommended by the Board of Directors.

Solicitation of Proxies

The cost of preparing, assembling, printing and mailing this Proxy Statement and the accompanying proxy card, and the cost of soliciting proxies relating to the Annual Meeting, will be borne by the Company. The Company may request banks and brokers to solicit their customers who beneficially own Common Stock listed of record in the name of such bank or broker or other third party, and will reimburse such banks, brokers and third parties for their reasonable out-of-pocket expenses for such solicitations. The solicitation of proxies by mail may be supplemented by telephone, facsimile, Internet and personal solicitation by directors, officers and other employees of the Company, but no additional compensation will be paid to such individuals. The Company has retained the firm of Mellon Investor Services LLC to assist in the solicitation of proxies for a base fee of approximately \$8,000, plus out-of-pocket expenses.

Householding

With regard to the delivery of annual reports and proxy statements, under certain circumstances the Securities and Exchange Commission permits a single set of such documents to be sent to any household at which two or more shareholders reside if they appear to be members of the same family. Each shareholder, however, still receives a separate proxy card. This procedure, known as householding, reduces the amount of duplicate information received at a household and reduces mailing and printing costs as well. A number of banks, brokers and other firms have instituted householding and have previously sent a notice to that effect to certain of the Company's shareholders whose shares are registered in the name of the bank, broker or other firm. As a result, unless the shareholders receiving such notice gave contrary instructions, only one annual report and one annual proxy statement will be mailed to an address at which two or more such shareholders reside. If any shareholder residing at such an address wishes to receive a separate annual report or annual proxy statement in the future, such shareholder should telephone the householding election system (toll-free) at 1-800-542-1061. In addition, (i) if any shareholder who previously consented to householding desires to receive a separate copy of the annual report or annual proxy statement for each shareholder at his or her same address, or (ii) if any shareholder shares an address with another shareholder and both shareholders of such address desire to receive only a single copy of the annual report or annual proxy statement, then such shareholder should contact his or her bank, broker or other firm in whose name the shares are registered or contact the Company as follows: Callaway Golf Company, ATTN: Investor Relations, 2180 Rutherford Road, Carlsbad, CA 92008, telephone (760) 931-1771.

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Other Matters

The main purpose of the Annual Meeting of Shareholders is to conduct the business described in this Proxy Statement. On some occasions in the past, the Company has chosen to expand the scope of the meeting to include presentations on portions of the Company's business and to conduct a question and answer session with the Company's leadership. At the upcoming Annual Meeting, it is the Company's intention to have a brief presentation by the Chief Executive Officer after the completion of all business, followed by a short question and answer period. Due to legal and practical constraints, including regulations regarding the selective disclosure of material information, and consistent with the fact that the main purpose of the Annual Meeting is to conduct the necessary business of the Company, a significant, substantive presentation on the Company's current or expected performance is not planned.

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BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Introduction

Corporate governance is the system by which corporations ensure that they are managed ethically and in the best interests of the Company's shareholders. The Company is committed to maintaining high standards of corporate governance. A copy of the Company's Corporate Governance Guidelines is available on the Company's website at www.callawaygolf.com under Investor Relations - Corporate Governance.

One of the most important aspects of corporate governance is the election of a Board of Directors to oversee the operation of the business and affairs of the Company. The Company's Bylaws provide that the Company's directors shall be elected at each annual meeting of shareholders. As a result, as discussed below, the first proposal the shareholders will be asked to vote upon at the Annual Meeting is the election of seven directors to serve until the 2009 annual meeting of shareholders and until their successors are elected and qualified.

In today's business environment, the selection of a qualified independent auditor has become a key aspect of corporate governance. This year the Board of Directors has asked that shareholders ratify the Audit Committee's selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008.

Proposal No. 1 Election of Directors

Independence. The Company's Bylaws and Corporate Governance Guidelines provide that a substantial majority of the Company's directors must be independent. A director is independent only if the director is not an employee of the Company and the Board has determined that the director has no direct or indirect material relationship to the Company. To be independent, a director must also satisfy any other independence requirements under applicable law or regulation and the listing standards of the NYSE. In evaluating a particular relationship, the Board considers the materiality of the relationship to the Company, to the director and, if applicable, to an organization with which the director is affiliated. To assist in its independence evaluation, the Board adopted categorical independence standards, which are listed on Exhibit A attached to the Company's Corporate Governance Guidelines, which are available on the Company's website at www.callawaygolf.com under Investor Relations - Corporate Governance. Compliance with these internal and NYSE independence standards is reviewed at least annually. The Board has determined that each of the six current non-management directors is independent; therefore, a majority of the members of the Board are independent. George Fellows, the Company's President and Chief Executive Officer, is the only current non-independent director.

In considering the independence of Mr. Cushman, the Board considered a transaction involving the Company that indirectly had an immaterial benefit to Cushman & Wakefield, Inc. Mr. Cushman is the Chairman of the Board of Cushman & Wakefield, Inc. In 2007, the Company entered into a sale-lease transaction with regard to one of its buildings. As part of the transaction, the Company paid a commission to its third party real estate broker who represented the Company in the transaction. Because Cushman & Wakefield had provided consulting services to the third party real estate broker in the early stages of the transaction, upon consummation of the transaction, the third party broker paid Cushman & Wakefield a portion of its commission (i.e. approximately \$77,000). The Board concluded that such amount was immaterial to Cushman & Wakefield, to Mr. Cushman and to the Company and therefore did not affect Mr. Cushman's independence.

Nominees for Election. The Board of Directors has nominated all of the Company's seven current directors to stand for election at the Annual Meeting to serve until the 2009 annual meeting of shareholders and until their respective successors are elected and qualified. Each nominee has consented to being named in this Proxy Statement as a nominee for election as director and has agreed to serve as a director if elected. If any one or more of such nominees should for any reason become unavailable for election, the persons named in the accompanying form of proxy may vote for the election of such substitute nominees as the Board of Directors may propose. The accompanying form of proxy contains a discretionary grant of authority with respect to this matter.

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The nominees for election as directors at the Annual Meeting are set forth below:

Name	Positions with the Company	Director Since
George Fellows	President and Chief Executive Officer	2005
Ronald S. Beard	Chairman of the Board and Lead Independent Director	2001
Samuel H. Armacost	Director	2003
John C. Cushman, III	Director	2003
Yotaro Kobayashi	Director	1998
Richard L. Rosenfield	Director	1994
Anthony S. Thornley	Director	2004

Biographical Information of Nominees. Set forth below is certain biographical information about each of the nominees:

George Fellows. Mr. Fellows, 65, is President and Chief Executive Officer of the Company as well as one of its Directors. He has served in such capacities since August 2005. Prior to joining the Company, during the period 2000 through July 2005, he served as President and Chief Executive Officer of GF Consulting, a management consulting firm, and served as Senior Advisor to Investcorp International, Inc. and J.P. Morgan Partners, LLC. Previously, Mr. Fellows was a member of senior management of Revlon, Inc. from 1993 to 1999, including his terms as President commencing 1995 and Chief Executive Officer commencing 1997. He is a member of the board of directors of VF Corporation (a global apparel company) and Jack in the Box Inc. (a fast food restaurant chain). Mr. Fellows graduated with a B.S. degree from City College of New York, received an MBA from Columbia University, and completed the Advanced Management Program at Harvard.

Ronald S. Beard. Mr. Beard, 69, has served as a Director of the Company since June 2001, held the position of Lead Independent Director since August 2002 and was appointed Chairman in August 2005. He is Chair of the Nominating and Corporate Governance Committee. Mr. Beard is currently a partner in the Zeughhauser Group, consultants to the legal industry. Mr. Beard is a retired former Partner of the law firm of Gibson, Dunn & Crutcher LLP. He joined the firm in 1964, served as Chairman of the firm from April 1991 until December 2001, and was also its Managing Partner from April 1991 until mid-1997. Mr. Beard served as the Company's general outside counsel from 1998 until he joined the Board of Directors. Mr. Beard also serves as a Director of Javo Beverage Company. He received his law degree in 1964 from Yale Law School.

Samuel H. Armacost. Mr. Armacost, 69, has served as a Director of the Company since April 2003 and is Chair of the Compensation and Management Succession Committee. He is Chairman of SRI International (formerly Stanford Research Institute). Mr. Armacost joined SRI International in 1998. He was Managing Director of Weiss, Peck & Greer LLC (an investment management and venture capital firm) from 1990 to 1998. He was Managing Director of Merrill Lynch Capital Markets from 1987 to 1990. Prior to that time he was President and Chief Executive Officer of BankAmerica Corporation from 1981 to 1986. He also served as Chief Financial Officer of BankAmerica Corporation from 1979 to 1981. Currently, Mr. Armacost serves as a member of the Board of Directors of Chevron Corporation, Exponent, Inc., Del Monte Foods Company and Franklin Resources, Inc. Mr. Armacost is a graduate of Denison University and received his MBA from Stanford University in 1964.

John C. Cushman, III. Mr. Cushman, 67, has served as a Director of the Company since April 2003. He has been Chairman of Cushman & Wakefield, Inc. since it merged with Cushman Realty Corporation in 2001, which he co-founded in 1978. Mr. Cushman also serves as Director and Chief Executive Officer of Cushman Winery Corporation, which is the owner of Zaca Mesa Winery, and which he co-founded in 1972. He began his career with Cushman & Wakefield, Inc., a commercial real estate firm, from 1963 to 1978. Currently, Mr. Cushman also serves on the boards of D.A. Cushman Realty Corporation, and Inglewood Park Cemetery. Mr. Cushman is a 1963 graduate of Colgate University and he completed the Advanced Management Program at Harvard University.

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Yotaro Kobayashi. Mr. Kobayashi, 74, has served as a Director of the Company since June 1998. He has been the Chief Corporate Advisor of Fuji Xerox Co., Ltd. since 2006. Mr. Kobayashi joined Fuji Photo Film Co., Ltd. in 1958, was assigned to Fuji Xerox Co., Ltd. in 1963, named President and Chief Executive Officer in 1978 and Chairman and Chief Executive Officer in 1992. He served as Chairman of the Board from 1999 through March 2006. Mr. Kobayashi is also a Director of Sony Corporation, Nippon Telegraph and Telephone Corporation (NTT) and the American Productivity and Quality Center. He holds positions as Chairman of The Aspen Institute Japan, Pacific Asia Chairman of the Trilateral Commission, and Chairman of the International University of Japan as well as Life-Time Trustee of Keizai Doyukai. He also is on the Advisory Board of the Council on Foreign Relations and is an Advisory Council Member for Stanford University's Institute of International Studies. In addition, Mr. Kobayashi serves on the Board of Trustees of Keio University. He is a 1956 graduate of Keio University and received his MBA from The Wharton School in 1958.

Richard L. Rosenfield. Mr. Rosenfield, 62, has served as a Director of the Company since April 1994. He is the Chair of the Executive Committee. He is co-founder, co-Chairman, co-President and co-Chief Executive Officer of California Pizza Kitchen, Inc., a gourmet pizza restaurant chain founded in 1985. From 1973 to 1985, Mr. Rosenfield was a principal and partner of the law firm of Flax & Rosenfield, a private law firm in Beverly Hills, California. From 1969 to 1973, Mr. Rosenfield served as an attorney in the U.S. Department of Justice. He is a 1969 graduate of DePaul University College of Law.

Anthony S. Thornley. Mr. Thornley, 61, has served as a Director of the Company since April 2004. He is the Chair and designated Financial Expert of the Audit Committee. From February 2002 to July 2005, he served as President and Chief Operating Officer of QUALCOMM Incorporated, the San Diego-based company that pioneered and developed technologies used in wireless networks throughout much of the world. He previously served as QUALCOMM's Chief Financial Officer since 1994, while also holding titles of Vice President, Senior Vice President and Executive Vice President. Prior to joining QUALCOMM, Mr. Thornley worked for Nortel Networks for 16 years, serving in various financial and information systems management positions including Vice President of Public Networks, Vice President of Finance NT World Trade, and Corporate Controller Northern Telecom Limited. Before Nortel, Mr. Thornley worked for Coopers & Lybrand. Mr. Thornley is a director of Airvana Inc. (provider of network infrastructure products), Cavium Networks (a semiconductor company), Transdel Pharmaceuticals, Inc., Proximetry, Inc. (a privately held wireless network management company) and KMF Audio, Inc. (a privately held microphone company) and also serves as Chief Financial Officer of KMF Audio. Mr. Thornley received his degree in chemistry from Manchester University, England, and is qualified as a chartered accountant.

Vote Required

Assuming a quorum is present, the seven nominees receiving the highest number of votes cast at the Annual Meeting will be elected as directors. You may vote for or withhold your vote with respect to the election of any or all of the nominees.

Majority Vote Policy

The Company's Corporate Governance Guidelines set forth the Company's procedure regarding a director who is elected but receives a majority of withheld votes. In an uncontested election of directors, any nominee who has a greater number of votes withheld from his or her election than votes for such election (a Majority Withheld Vote) is required to submit in writing an offer to resign. The Nominating and Corporate Governance Committee would consider, among other things, the reasons for the Majority Withheld Vote and make a recommendation to the full Board whether or not to accept the resignation offer. The Board would consider the recommendation, determine whether or not to accept the resignation offer and disclose the basis for its determination. Full details of this procedure are set forth in the Company's Corporate Governance Guidelines, posted on its website at www.callawaygolf.com under Investor Relations Corporate Governance.

YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE NOMINEES LISTED ABOVE.

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Committees of the Board of Directors

The Board of Directors currently has four standing committees and one subcommittee. They are the Audit Committee; the Compensation and Management Succession Committee, as well as its subcommittee, The Section 162(m) and Rule 16b-3 Subcommittee of the Compensation and Management Succession Committee; the Executive Committee; and the Nominating and Corporate Governance Committee. There is also an ad hoc Special Committee of the Board of Directors which was formed in 2005 to assist the Board of Directors in evaluating strategic alternatives. The Board of Directors has adopted written charters for each of the four standing committees. A copy of each of the charters is available on the Company's website at www.callawaygolf.com under Investor Relations Corporate Governance Board Committees. Upon request, the Company will provide to any person without charge a copy of such charters. Any such requests may be made by contacting the Company's Investor Relations Department at the Company's principal executive offices by telephone at (760) 931-1771 or by mail at 2180 Rutherford Road, Carlsbad, CA 92008. More detailed information about each committee is set forth below.

Audit Committee. The Audit Committee currently consists of Messrs. Thornley (Chair), Beard and Armacost. The Board of Directors has determined that each member of the Company's Audit Committee is independent within the meaning of Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended, and Rule 10A-3 thereunder, and the applicable listing standards of the NYSE. The Board of Directors has also determined that each member of the Audit Committee is financially literate and has accounting or related financial management expertise within the meaning of the rules of the NYSE. In addition, the Board of Directors has determined that at least one member of the Audit Committee qualifies as an Audit Committee Financial Expert as defined by Item 407(d)(5) of Regulation S-K. The Board of Directors has designated Mr. Thornley as the Audit Committee Financial Expert. The Board also believes that the collective experiences of the other members of the Audit Committee make them well qualified to serve on the Company's Audit Committee. Shareholders should understand that Mr. Thornley's designation as an Audit Committee Financial Expert is a Securities and Exchange Commission disclosure requirement, and it does not impose on Mr. Thornley any duties, obligations or liabilities that are greater than those which are generally imposed on him as a member of the Audit Committee and the Board, and his designation as an Audit Committee Financial Expert pursuant to this requirement does not affect the duties, obligations or liabilities of any other member of the Audit Committee or the Board.

The Audit Committee is responsible for representing the Board of Directors in discharging its oversight responsibility relating to the accounting, reporting and financial practices of the Company and its subsidiaries, including the integrity of the Company's financial statements, as well as oversight of the Company's internal audit function. The Audit Committee also has oversight responsibility with regard to the Company's legal and regulatory matters and has sole authority for all matters relating to the Company's independent registered public accounting firm, including the appointment, compensation, evaluation, retention and termination of such firm.

Compensation and Management Succession Committee. The Compensation and Management Succession Committee currently consists of Messrs. Armacost (Chair), Beard, Cushman, Rosenfield and Thornley. All of the members of this Committee are independent directors as determined under the applicable independence standards described above, including the NYSE listing standards. The Committee is responsible for discharging the responsibilities of the Board relating to compensation of the Company's executives and for assisting the Board with management succession issues and planning. The Committee sets the compensation of the Chief Executive Officer together with the other independent directors. The Committee sets the compensation of the other executive officers in consultation with the Chief Executive Officer.

In order to preserve the Company's maximum flexibility for awarding as well as taking deductions for executive compensation, during 2007 the Board of Directors authorized the formation of The Section 162(m) and Rule 16b-3 Subcommittee of the Compensation and Management Succession Committee. The Subcommittee currently consists of Messrs. Armacost (Chair), Beard, Rosenfield and Thornley. The purpose of the Subcommittee is to ensure that at all times there is a Board committee comprised solely of two or more

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(i) outside directors (as defined in the regulations promulgated pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended (the IRC)) and (ii) non-employee directors (as defined in Rule 16b-3 promulgated pursuant to the Securities Exchange Act of 1934, as amended). The Subcommittee is responsible for the performance of duties that require action by a compensation committee comprised solely of two or more non-employee directors and/or two or more outside directors, including administration of the Company's incentive-compensation and equity-based compensation plans, the grant of awards to executive officers, and the responsibility to establish any performance goals related to such awards or other performance-based compensation for executive officers of the Company.

Executive Committee. The Executive Committee currently consists of Messrs. Rosenfield (Chair), Fellows, Beard and Cushman. As discussed above, Messrs. Rosenfield, Beard and Cushman are all currently deemed to be independent directors as determined under the applicable independence standards described above, including the NYSE listing standards, and Mr. Fellows is deemed to be a non-independent, management director. There is no requirement that the Company have an executive committee or that the members of the committee be independent. The Charter of the Executive Committee provides that a majority of the members be non-management directors. The Committee is responsible for assisting the Board of Directors in discharging its duties to the Company and to the Company's shareholders. The Committee performs such tasks as the Board of Directors delegates to it from time to time. This Committee did not meet in 2007.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee currently consists of Messrs. Beard (Chair), Armacost, Cushman, Kobayashi, Rosenfield and Thornley. All of the members of this Committee are independent directors as determined under the applicable independence standards described above, including the NYSE listing standards. The Committee is responsible for identifying and recommending to the Board individuals who are qualified to serve on the Board of Directors and recommending candidates who should stand for election at each annual meeting of shareholders. The Committee is also responsible for oversight of the Company's corporate governance practices, including the Company's Corporate Governance Guidelines, and evaluation of the effectiveness of the Board and Board Committees.

The Committee believes that the continuing service of qualified incumbents promotes stability and continuity among the Board of Directors and contributes to the Board's ability to function effectively. The continuing service of qualified incumbents also provides the Company with the benefit of the familiarity with and insight into the Company's affairs that its directors have accumulated during their tenure. As a result, in considering candidates for nomination for each annual meeting of shareholders, the Committee first considers the Company's incumbent directors who desire to continue their service on the Board. The Committee will generally recommend to the Board an incumbent director for re-election if the Committee has determined that (i) the incumbent director continues to satisfy the threshold criteria described below, (ii) the incumbent director has satisfactorily performed his or her duties as a director during the most recent term and (iii) there exists no reason why, in the Committee's view, the incumbent director should not be re-elected.

If a vacancy becomes available on the Board of Directors as a result of the death, resignation or removal of an incumbent director or as a result of action taken by the Board to increase the size of the Board, the Committee proceeds to identify candidates who meet the threshold criteria described below. The Committee may use a variety of methods for identifying director candidates, including professional search firms and recommendations from the Company's officers, directors, shareholders or other persons. Once a candidate has been identified, the Committee evaluates whether the candidate has the appropriate skills and characteristics to become a director and whether the candidate satisfies the following threshold criteria: (i) a candidate should exhibit very high personal and professional ethics, integrity and values; (ii) a candidate should not have any conflicting interest that would materially impair his or her ability to discharge the fiduciary duties of a director; (iii) a candidate should be committed to the best interests of the Company's shareholders and be able to represent fairly and equally all shareholders without favoring or advancing any particular shareholder or other constituency; and (iv) a candidate should be able to devote adequate time to his or her service as a director. Candidates are also evaluated based upon their independence, education and relevant business and industry experience. These factors, and others, are

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considered by the Nominating and Corporate Governance Committee in the context of the Board as a whole and in light of the Board's needs at a particular time.

If a shareholder believes that he or she has identified an appropriate candidate who is willing to serve on the Company's Board of Directors, the shareholder may submit a written recommendation to the Chair of the Nominating and Corporate Governance Committee c/o the Company's Secretary at 2180 Rutherford Road, Carlsbad, California 92008. Such recommendation must include detailed biographical information concerning the recommended candidate, including a statement regarding the candidate's qualifications. The Nominating and Corporate Governance Committee may require such further information and obtain such further assurances concerning the recommended candidate as it deems reasonably necessary. The Nominating and Corporate Governance Committee will review properly submitted shareholder candidates in the same manner as it evaluates all other director candidates. In addition to bringing potential qualified candidates to the attention of the Nominating and Corporate Governance Committee as discussed above, a nomination of a person for election to the Board of Directors at an annual meeting of shareholders may be made by shareholders who meet the qualifications set forth in the Company's Bylaws and who make such nominations in accordance with the procedures set forth in the Company's Bylaws, including the procedures described under the heading "Shareholder Proposals" in this Proxy Statement.

Ad Hoc Committees. From time to time, the Board of Directors has formed ad hoc committees. In 2005, the Board formed an ad hoc Special Committee to assist it with evaluating strategic alternatives. The Special Committee currently consists of Messrs. Beard (Chair), Armacost, Cushman, Rosenfield and Thornley.

Lead Independent Director

The Board also appoints a Lead Independent Director. Ronald S. Beard is currently the designated Lead Independent Director and he has served in that role since August 2002. The Lead Independent Director coordinates the activities of the independent directors and serves as a liaison between the Chief Executive Officer and the independent directors. The Lead Independent Director also presides at the executive sessions (without management) of the independent directors. A copy of the Charter for the Lead Independent Director position is available at the corporate governance section of the Company's website at www.callawaygolf.com under Investor Relations - Corporate Governance - Board Membership.

Meetings and Director Attendance

During 2007, the Company's Board of Directors met seven times and the independent directors met in executive session at four of those meetings; the Audit Committee met 13 times; the Compensation and Management Succession Committee met five times; and the Nominating and Corporate Governance Committee met four times. During 2007 neither the Executive Committee nor the Special Committee held any meetings. In addition to meetings, the members of the Board of Directors and its committees sometimes take action by written consent in lieu of a meeting, which is permitted under Delaware corporate law, or discuss Company business without calling a formal meeting. During 2007, all of the Company's current directors attended in excess of 75% of the meetings of the Board of Directors and committees of the Board of Directors on which they served. All of the Board members are expected to attend the annual meetings of shareholders and all directors attended the 2007 annual shareholders' meeting.

Director Compensation

Directors who are not employees of the Company are paid annual base cash compensation, additional daily cash compensation for attendance at meetings of the Board of Directors and its committees, and are reimbursed for their expenses in attending meetings. The annual base cash compensation and daily cash compensation is \$45,000 and \$1,500, respectively. Non-employee directors who serve as Chairs of committees of the Board of

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Directors are paid an additional \$300 per day per committee meeting attended. In recognition of the significant amount of time they are required to spend on Company business between meetings, the Lead Independent Director, the Chair of the Audit Committee and the Chair of the Compensation and Management Succession Committee are paid additional annual cash retainers of \$30,000, \$10,000 and \$5,000, respectively. For additional information see Compensation of Executive Officers and Directors Director Compensation in Fiscal Year 2007 included in this Proxy Statement.

During 2007, the non-employee directors participated in the Callaway Golf Company Amended and Restated 2001 Non-Employee Directors Stock Incentive Plan (the 2001 Plan), which was approved, as amended and restated, by the Company s shareholders at the Company s 2006 annual meeting. As so amended and restated, the 2001 Plan authorizes the grant of various equity awards, including stock options, restricted stock and restricted stock units, to allow the Board greater flexibility in setting the long-term incentives for directors. It is the Company s current practice that upon the initial election or appointment of a new director and for each year of continuing service, he or she is granted stock options, restricted stock, restricted stock units or a combination thereof pursuant to the 2001 Plan. Such initial and continuing service awards are made as of the date of appointment or re-election in the form and amount as determined by the Board of Directors on the recommendation of the Compensation Committee. In 2007 each of the non-employee directors were granted 2,710 restricted stock units as continuing service awards, as described in Compensation of Executive Officers and Directors Director Compensation in Fiscal Year 2007. Subject to certain anti-dilution and weighting adjustments, a maximum of 500,000 shares are approved for issuance upon the exercise of awards granted under the 2001 Plan.

The Company has a policy that the non-employee directors should promote the Company s products by using the Company s current products whenever they play golf. To assist the directors in complying with this policy, non-employee directors are entitled to receive golf club products of the Company, free of charge, for their own personal use and the use of immediate family members residing in their households. The directors also receive other products (e.g., golf balls and accessories) and benefits (e.g., the right to participate in the Company s deferred compensation plan, the right to purchase a limited amount of additional golf clubs, balls and accessories at a discount) that are not material in amount.

Communications with the Board

Shareholders and other interested parties may contact the Company s Lead Independent Director or the non-management directors as a group by email at: *Non-managementdirectors@callawaygolf.com*, or by mail to: Board of Directors, Callaway Golf Company, 2180 Rutherford Road, Carlsbad, California 92008. The Corporate Secretary s office will review all incoming communications and will filter out solicitations and junk mail. All legitimate communications are reviewed with the Lead Independent Director for distribution to the other non-management directors or for handling as appropriate.

Corporate Governance Guidelines and Code of Conduct

The Board of Directors has adopted and published on its website its Corporate Governance Guidelines to provide the Company s shareholders and other interested parties with insight into the Company s corporate governance practices. The Nominating and Corporate Governance Committee is responsible for overseeing these guidelines and for reporting and making recommendations to the Board concerning these guidelines. The Corporate Governance Guidelines cover, among other things, board composition and director qualification standards, responsibilities of the Board of Directors, Board compensation, committees of the Board of Directors and other corporate governance matters.

The Board of Directors has also adopted a Code of Conduct that applies to all of the Company s employees, including its senior financial and executive officers, as well as the Company s directors. The Company s Code of Conduct covers the basic standards of conduct applicable to all directors, officers and employees of the Company, as well as the Company s Conflicts of Interest and Ethics Policy and other specific compliance

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standards and related matters. The Company will promptly disclose any waivers of, or amendments to, any provision of the Code of Conduct that applies to the Company's directors and senior financial and executive officers on its website at www.callawaygolf.com.

The Corporate Governance Guidelines and Code of Conduct are available on the Company's website at www.callawaygolf.com under Investor Relations Corporate Governance and Corporate Overview, respectively. Upon request, the Company will provide to any person without charge a copy of the Company's Corporate Governance Guidelines or Code of Conduct. Any such requests may be made by contacting the Company's Investor Relations department at the Company's principal executive offices by telephone at (760) 931-1771 or by mail at 2180 Rutherford Road, Carlsbad, California 92008.

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REPORT OF THE AUDIT COMMITTEE

Audit Committee Duties and Responsibilities

The duties and responsibilities of the Audit Committee are set forth in its written charter. In summary, they are:

Review and discuss with the outside auditors the scope and results of the annual audit and any reports with respect to interim periods.

Review and discuss with management and the outside auditors the annual and quarterly financial statements of the Company, including any significant financial reporting issues and judgments, the effects of regulatory and accounting initiatives and off-balance sheet structures on the Company's financial statements, disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations in reports filed with the Securities and Exchange Commission, and any major issues regarding the Company's accounting principles and financial statements.

Review and discuss the Company's policies with respect to earnings press releases and other disclosures of financial information and/or guidance.

Responsibility and sole authority for all matters relating to the Company's outside auditors, including their appointment, compensation, evaluation, retention and termination.

Approval of all services to be performed by the outside auditors, including pre-approval of any permissible non-audit services.

Recommend to the Board, based on its review and discussions with management and the outside auditors, whether the financial statements should be included in the Annual Report on Form 10-K.

Review and consider the independence of the outside auditors.

Obtain and review a report by the outside auditors on their internal quality control procedures and any material issues raised by the most recent internal quality control review or peer review.

Review and discuss with the principal internal auditor of the Company the scope and results of the internal audit program, and the adequacy and effectiveness of internal controls.

Review and discuss the adequacy and effectiveness of the Company's disclosure controls and procedures.

Review material pending legal proceedings and material contingent liabilities.

Oversee the Company's compliance programs with respect to legal and regulatory requirements and the Company's code of conduct policies, including review of related party transactions and other conflict of interest issues.

Review and discuss the Company's policies with respect to risk assessment and risk management, and oversee the Company's legal and regulatory compliance programs, code of conduct, and conflict of interest policies.

Establish procedures for handling complaints about accounting, internal controls and audit matters.

Evaluate annually the performance of the Audit Committee and the adequacy of its charter.

In addition to its charter, the Audit Committee has also adopted (i) a written policy restricting the hiring of candidates for accounting or financial reporting positions if such candidates have certain current or former relationships with the Company's independent auditors; (ii) procedures for the receipt, retention and treatment of complaints regarding accounting or auditing matters and the confidential submission by employees of any concerns regarding such accounting or auditing matters; (iii) a written policy governing the preapproval of audit

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and non-audit fees and services to be performed by the Company's independent auditors; and (iv) a written policy requiring management to report to the Committee transactions with the Company's officers or certain other parties.

In general, the Audit Committee represents the Board of Directors in discharging its general oversight responsibilities for the Company and its subsidiaries in the areas of accounting, auditing, financial reporting, risk assessment and management, and internal controls. Management has the responsibility for the preparation, presentation and integrity of the Company's financial statements and for its financial reporting process and the Company's independent auditors are responsible for expressing an opinion on the conformance of the Company's financial statements to accounting principles generally accepted in the United States. The Audit Committee is responsible for reviewing and discussing with management and the Company's independent auditors the Company's annual and quarterly financial statements and financial reporting process and for providing advice, counsel and direction to management and the Company's independent auditors on such matters based upon the information it receives, its discussions with management and the independent auditors and the experience of the Audit Committee members in business, financial and accounting matters.

The Company has an internal audit department that, among other things, is responsible for objectively reviewing and evaluating the adequacy and effectiveness of the Company's system of internal controls, including controls relating to the reliability of the Company's financial reporting. The internal audit department reports directly to the Audit Committee and, for administrative purposes, to the Chief Financial Officer.

2007 Audit Committee Activities

During 2007, the Audit Committee met formally 13 times. Messrs. Armacost, Beard, and Thornley served on the Committee throughout 2007, throughout which Mr. Thornley served as Chair. The Board has determined that throughout 2007 all members of the Audit Committee met all applicable independence requirements of the NYSE and SEC during the time they served on the Committee, and that all members of the Audit Committee were financially literate and had accounting or related financial management expertise within the meaning of the NYSE listing standards. In addition, the Audit Committee has designated Mr. Thornley as the Audit Committee Financial Expert. Shareholders should understand that this designation is a Securities and Exchange Commission disclosure requirement, and does not impose on Mr. Thornley any duties, obligations or liabilities that are greater than those which are generally imposed on him as a member of the Audit Committee and the Board, and his designation as an Audit Committee Financial Expert pursuant to this requirement does not affect the duties, obligations or liabilities of him or any other member of the Audit Committee or the Board.

Deloitte & Touche LLP ("Deloitte") served as the Company's independent registered public accounting firm for 2007. The Audit Committee reviewed and discussed with management and Deloitte the Company's quarterly and audited annual financial statements for the year ended December 31, 2007. The Audit Committee discussed with Deloitte the matters that the auditors are required to discuss with the Audit Committee pursuant to Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards Vol. 1 AU section 380) (Communication with Audit Committees), as adopted by the Public Company Accounting Oversight Board in Rule 3200T, including (i) the Company's significant accounting policies and their application, (ii) the reasonableness of management's accounting estimates and judgments used in the preparation of the Company's financial statements, and (iii) the quality of the Company's accounting procedures and practices.

In addition, the Audit Committee has received from the independent auditors the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with the independent auditors the independent auditors' independence. Although such letter is only required annually, as a matter of procedure the Audit Committee requests that the Company's independent auditors provide such letter at least quarterly and such letter was provided at least quarterly during 2007. The Audit Committee actively engaged in a dialogue with the independent auditors with respect to any disclosed relationships or services that might impact the auditors' objectivity and independence.

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During the course of 2007, the principal internal auditor and management documented, tested and evaluated the Company's system of internal control over financial reporting in response to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations. The Audit Committee was kept apprised of the progress of the evaluation and provided oversight and advice during the process. In connection with this oversight, the Committee received periodic updates provided by the principal internal auditor, management and Deloitte at least quarterly at a Committee meeting. Upon completion of the evaluation, the principal internal auditor and management reported to the Committee regarding the effectiveness of the Company's internal control over financial reporting. The Committee also reviewed the report of management contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as well as Deloitte's Report of Independent Registered Public Accounting Firm included in the Company's Annual Report on Form 10-K related to its audits of (i) the consolidated financial statements and financial statement schedule and (ii) the effectiveness of internal control over financial reporting. The Committee continues to oversee the Company's efforts related to its internal control over financial reporting.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, for filing with the Securities and Exchange Commission.

Non-Audit Services

In accordance with the Sarbanes-Oxley Act of 2002 and applicable rules of the Securities and Exchange Commission, it is the Audit Committee's policy that all non-audit services to be performed by the Company's independent registered public accounting firm must be preapproved by the Audit Committee. The Audit Committee generally approves the use of the Company's auditors to perform non-audit services only in limited circumstances and the non-audit services that have been approved in the past generally have been tax-related services as is permitted under the rules of the Securities and Exchange Commission.

Major Consulting Project. As discussed in the Company's proxy statement last year, the Audit Committee made an exception to its general practices and approved the engagement of Deloitte Consulting in late 2006 for non-audit services that were not tax-related. These services included the identification of potential expense reduction opportunities related to the procurement of indirect goods and services and inventory management. As a result of that engagement, Deloitte Consulting assisted the Company in identifying the potential for significant cost savings in those areas. In January, 2007, based upon management's recommendation and after a thorough review of this matter, the Audit Committee further approved the engagement of Deloitte Consulting to provide recommendations and to advise the Company's management team during management's implementation of initiatives designed to realize the potential cost savings previously identified. It is the Audit Committee's view that at all times during the provision of these non-audit services, Deloitte & Touche LLP and Deloitte Consulting remained independent. Deloitte Consulting completed these non-audit services in March 2008. As of the date of this report Deloitte Consulting is no longer performing any non-audit services for the Company.

The Committee recognizes the importance of maintaining the independence of the Company's independent auditors and considered this matter extensively before approving the engagement of Deloitte Consulting. The Committee approved the non-audit services only after considering the applicable SEC and PCAOB auditor independence rules and numerous consultations with outside legal counsel and Deloitte (including a review of this matter at appropriate levels within Deloitte), and the Committee's receipt of a written representation from Deloitte that it is independent with respect to this matter. The Audit Committee also reviewed this matter with the Company's full Board of Directors, which was fully supportive of the engagement of Deloitte Consulting for these services. Strict procedures were agreed upon in advance to assure independence.

The Committee believes that approving the engagement of Deloitte Consulting to assist the Company with these initiatives was in the best interests of the Company's shareholders. The Company has already realized, and believes it will continue to realize, significant cost savings from its cost reduction initiatives. Management and

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the Audit Committee believe the Company would not have been able to realize such savings as quickly or cost efficiently without the services provided by Deloitte Consulting. Set forth below is additional detail regarding the services performed, the fees paid to Deloitte for such services, and the steps the Company and Deloitte undertook during this process to ensure the continued independence of Deloitte.

Background. In August 2005, following a year of transition and subpar financial results, the Board of Directors hired a new Chief Executive Officer, George Fellows. The Board charged Mr. Fellows with responsibility for significantly increasing the Company's profitability. In response, Mr. Fellows developed a two-staged plan for improving profitability. The first phase was designed to reduce operating expenses and the second phase was designed to improve gross margins. Mr. Fellows oversaw the implementation of the operating expense reduction initiatives during the latter part of 2005 and during 2006. In August 2006, Mr. Fellows hired a new executive officer, Dave Lavery, to oversee the Company's manufacturing operations and to focus on improving gross margins.

During the fourth quarter of 2006, management recommended that the Audit Committee approve the engagement of Deloitte Consulting to assist in evaluating the Company's processes and practices related to the procurement of indirect goods and services and inventory management. Management proposed using Deloitte Consulting because (i) as a practical matter, finding effective consultants can be a hit-or-miss proposition making a proven track record critical to minimizing risk and expediting the process, (ii) on more than one occasion at other corporations Mr. Lavery had previous successful experiences with Deloitte Consulting on similar projects with positive results, and (iii) the Company wanted to determine quickly the magnitude of the potential cost reduction opportunities in the areas of indirect goods and services and inventory management and therefore whether to focus resources on these areas or on other gross margin improvement initiatives. The Audit Committee considered this matter at length and ultimately approved the engagement of Deloitte Consulting to conduct the proposed evaluation.

As a result of its evaluation, the Company, working with Deloitte Consulting, identified opportunities for significant operational improvements and cost reductions, which if realized, were expected to have a significant positive impact on the Company's gross margins and profitability and ultimately shareholder value. At the conclusion of the evaluation, the Committee and the Company's management concluded that (i) Deloitte Consulting was in the best position to advise the Company related to the implementation of these initiatives given the nature of the initiatives and the work Deloitte Consulting had performed to date, (ii) engaging another firm at that point would significantly delay the implementation of the initiatives and the realization of the benefits from those initiatives, (iii) engaging another firm at that point would significantly increase the costs of implementing the initiatives, and (iv) procedures could be implemented that would assure the continued independence of Deloitte as the Company's independent registered public accounting firm. As discussed above, after confirming the proposed services and associated fees were in accordance with the SEC and PCAOB auditor independence rules and after considering the potential significant benefits to the Company's shareholders from the efficient and timely realization of the potential cost reductions, the Committee approved the engagement of Deloitte Consulting to provide advisory services during the Company's efforts to capture the cost reductions and improve the inventory planning and procurement process.

Independence. In approving these non-audit services, the Audit Committee considered whether the provision of such non-audit services during 2007 (as well as 2006) was compatible with maintaining the independence of Deloitte as the Company's auditor. Prior to approving the services, the Committee and management, in coordination with Deloitte, implemented procedures and processes for ensuring the continued independence of Deloitte. These procedures and processes included (i) the initial and continued mandatory training of personnel at the Company and at Deloitte regarding independence matters, (ii) the formation of a joint independence working group, consisting of members of Company management and Deloitte, to monitor and handle any day-to-day independence questions or matters before they became a significant issue, (iii) the formation of an independence council, consisting of members of the Company's senior management team and Deloitte, to meet regularly to discuss and advise on any questions or matters brought to the council's attention by

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the independence working group and to review on a regular basis the controls in place for ensuring the continued independence of Deloitte, (iv) a status report to the Audit Committee by management and by Deloitte at each Audit Committee meeting, and (v) various other processes, procedures and controls for monitoring and ensuring Deloitte's continued independence during this project. Based in part upon these processes, the Audit Committee concluded that Deloitte Consulting's provision of such non-audit services was compatible with maintaining Deloitte's independence.

Fees and Benefits. The total fees and expenses paid to Deloitte Consulting for the non-audit services from October 2006 through March 2008 were approximately \$8.3 million. Of this amount, approximately \$1.2 million related to services performed in 2006, approximately \$6.5 million related to services performed in 2007, and approximately \$600,000 related to services performed in 2008.

As of the date of this report, the benefits realized from these services have been significant and include reduced manufacturing, selling, and general and administrative expenses. The benefits also include a reduction in inventory levels, resulting in improved liquidity and a significant reduction in interest expense. The initiatives were implemented in phases throughout 2007 and are permanent reductions which should continue to provide benefits in 2008 and thereafter. These initiatives and savings are an important part of the Company's overall gross margin and cost reduction initiatives. Although some of these benefits might have been obtained if a different consultant had been used to assist with the implementation of these initiatives, using a different consultant could have increased the total cost of the initiatives, caused a significant delay in the realization of the cost savings, and increased the risk that the initiatives would be unsuccessful. Given the importance and urgency of the initiatives and the magnitude and ongoing nature of the cost reductions, the Committee strongly believed that approving the engagement of Deloitte Consulting to perform the non-audit services was in the best interests of the Company and its shareholders. (Shareholders should note that the Company also realized other significant cost reductions from its gross margin initiatives which are omitted from the foregoing discussion because the other savings were not directly related to the services described above).

MEMBERS OF THE AUDIT COMMITTEE

Anthony S. Thornley (*Chair*)

Samuel H. Armacost

Ronald S. Beard

The preceding Report of the Audit Committee shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, nor shall any information in this report be incorporated by reference into any past or future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent the Company specifically incorporates it by reference into such filing.

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INFORMATION CONCERNING INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Proposal No. 2 Ratification of Independent Registered Public Accounting Firm

The Audit Committee, which is comprised entirely of independent directors, has appointed Deloitte & Touche LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008. Deloitte has served as the Company's independent auditors since December 2002. Information concerning the services performed by Deloitte and the fees for such services for 2007 and 2006 are set forth below under Fees of Independent Registered Public Accounting Firm. Representatives of Deloitte are expected to attend the Annual Meeting, where they are expected to be available to respond to questions, and if they desire, to make a statement.

At the Annual Meeting, shareholders will be asked to ratify the appointment of Deloitte as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008. Pursuant to the Sarbanes-Oxley Act of 2002 and the listing standards of the NYSE, the Audit Committee is directly responsible for the appointment of the Company's independent registered public accounting firm. Ratification of this appointment is not required to be submitted to shareholders and a shareholder vote on this matter is advisory only. Nonetheless, as a matter of good corporate governance, the Company is seeking ratification of the appointment of Deloitte. If the shareholders do not ratify the appointment, the Audit Committee will reconsider its appointment of Deloitte. Because the Audit Committee is directly responsible for appointing the Company's independent registered public accounting firm, however, the ultimate decision to retain or appoint Deloitte in the future as the Company's independent registered public accounting firm will be made by the Audit Committee based upon the best interests of the Company at that time.

Vote Required and Recommendation of the Board of Directors

The affirmative vote of the holders of a majority of shares of Common Stock represented and voting, in person or by proxy, at the Annual Meeting is required to ratify the appointment of Deloitte as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008. Abstentions will be treated as being present and entitled to vote on the matter and, therefore, will have the effect of votes against the proposal. A broker non-vote is treated as not being entitled to vote on the matter and, therefore, is not counted for purposes of determining whether the proposal has been approved.

YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR RATIFICATION OF THE APPOINTMENT OF DELOITTE AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2008.

Fees of Independent Registered Public Accounting Firm

Audit Fees. Audit fees include fees for the audit of the Company's annual financial statements, fees for the review of the Company's interim financial statements and fees for the audit of the Company's internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002. Audit fees also include other services that generally only the independent auditor can reasonably provide, including comfort letters, statutory audits, attest services, and consents and assistance with and review of documents filed with the Commission. The aggregate audit fees billed by Deloitte for 2007 and 2006 were \$1,711,730 and \$1,516,860, respectively.

Audit-Related Fees. Audit-related fees include fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements. The aggregate audit-related fees billed by Deloitte for 2007 and 2006 were \$30,740 and \$27,560, respectively. The fees for 2007 and 2006 were incurred primarily in connection with the audit of the financial statements for the Company's 401(k) Retirement Investment Plan for the years ended December 31, 2006 and 2005, respectively.

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Tax Fees. Tax fees include fees for services performed by the professional staff in the tax department of the independent registered public accounting firm except for those tax services that could be classified as audit or audit-related services. There were no tax fees billed by Deloitte for 2007 or 2006.

All Other Fees. All other fees include fees for all services except those described above. The aggregate of such other non-audit fees billed by Deloitte for 2007 and 2006 was \$6,513,573 and \$1,161,534, respectively, which was in connection with the consulting services provided by Deloitte Consulting with regard to the Company's processes and practices related to the procurement of indirect goods and services and the planning and management of inventory. For additional information concerning these services, see the Report of the Aud