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, 2021

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period __________ to __________

Commission file number 001-10962

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on which Registered
Common Stock, $0.01 par value per share	ELY	The New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of June 30, 2021, the number of shares outstanding of the Registrant’s common stock was 185,936,881.

Important Notice to Investors Regarding Forward-Looking Statements: This report contains "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: "may," "should," "will," "could," "would," "anticipate," "plan," "believe," "project," "estimate," "expect," "strategy," "future," "likely," and similar references to future periods. Forward-looking statements include, among others, statements that relate to future plans, events, liquidity, financial results, performance, prospects or growth and scale opportunities including, but not limited to, statements relating to future industry and market conditions, the impact of the COVID-19 pandemic on the Company's business, results of operations and financial condition and the impact of any measures taken to mitigate the effect of the COVID-19 pandemic, the benefits of the merger with Topgolf International, Inc. (“Topgolf”), including the anticipated operations, financial position, liquidity, performance, prospects or growth and scale opportunities of Callaway, Topgolf or the combined company, any statements regarding the strength of the Company's brands, product lines and e-commerce business, geographic diversity, market recovery, availability of capital under the Company's credit facilities, the capital markets or other sources, the Company's conservation and cost reduction efforts, future stock repurchases, cash flows and liquidity, compliance with debt covenants, estimated unrecognized stock compensation expense, projected capital expenditures and depreciation and amortization expense, future contractual obligations, the realization of deferred tax assets, including loss and credit carryforwards, future income tax expense, the future impact of new accounting standards, the JW Stargazer Holding GmbH ("Jack Wolfskin") acquisition, and the related financial impact of the future business and prospects of the Company, TravisMathew, LLC ("TravisMathew"), OGIO International, Inc. ("OGIO"), Jack Wolfskin and Topgolf. These statements are based upon current information and the Company's current beliefs, expectations and assumptions regarding the future of the Company's business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of the Company's control. As a result of these uncertainties and because the information on which these forward-looking statements is based may ultimately prove to be incorrect, actual results may differ materially from those anticipated. Important factors that could cause actual results to differ include, among others, the following:

- certain risks and uncertainties, including changes in capital markets or economic conditions, particularly the uncertainty related to the duration and impact of the COVID-19 pandemic, and related decreases in consumer demand and spending;
- the impact of the COVID-19 pandemic and other potential future outbreaks of infectious diseases or other health concerns, and measures taken to limit their impact, which could adversely affect the Company’s business, consumer demand and supply chain, and the global economy;
- disruptions to business operations whether from COVID-19-related travel restrictions, mandated quarantines or voluntary “social distancing” that affects employees, customers and suppliers, production delays, closures of manufacturing facilities, retail locations, warehouses and supply and distribution chains, and staffing shortages as a result of remote working requirements or otherwise;
- costs, expenses or difficulties related to the merger with Topgolf, including the integration of the Topgolf business, or the failure to realize the expected benefits and synergies of the Topgolf merger in the expected timeframes or at all;
- the potential impact of the merger on relationships with the Company’s and/or Topgolf’s employees, customers, suppliers and other business partners;
- consumer acceptance of and demand for the Company’s products;
- future retailer purchasing activity, which can be significantly affected by adverse industry conditions and overall retail inventory levels;
- any unfavorable changes in U.S. trade or other policies, including restrictions on imports or an increase in import tariffs;
- the level of promotional activity in the marketplace;
- future consumer discretionary purchasing activity, which can be significantly adversely affected by unfavorable economic or market conditions;
- future changes in foreign currency exchange rates and the degree of effectiveness of the Company’s hedging programs;
- the ability of the Company to manage international business risks;
- the Company's ability to recognize operational synergies and scale opportunities across its supply chain and global business platform;
- the costs and disruption associated with activist investors;
- significant developments stemming from the U.K.’s withdrawal from the European Union, which could have a material adverse effect on the Company;
- adverse changes in the credit markets or continued compliance with the terms of the Company’s credit facilities;

- the Company's ability to monetize its investments;
- the Company's ability to successfully integrate, operate and expand the retail stores of the acquired TravisMathew and Jack Wolfskin businesses;
- delays, difficulties or increased costs in the supply of components needed to manufacture the Company's products or in manufacturing the Company's products, including the Company's dependence on a limited number of suppliers for some of its products;
- adverse weather conditions and seasonality;
- any rule changes or other actions taken by the United States Golf Association or other golf association that could have an adverse impact upon demand or supply of the Company's products;
- the ability of the Company to protect its intellectual property rights;
- a decrease in participation levels in golf;
- the effect of terrorist activity, armed conflict, natural disasters or pandemic diseases, including without limitation the COVID-19 pandemic, on the economy generally, on the level of demand for the Company's products or on the Company's ability to manage its supply and delivery logistics in such an environment; and
- the general risks and uncertainties applicable to the Company and its business.

Investors should not place undue reliance on these forward-looking statements, which are based on current information and speak only as of the date hereof. The Company undertakes no obligation to update any forward-looking statements to reflect new information or events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Additionally, the risks, uncertainties and other factors set forth above or otherwise referred to in the reports that the Company has filed with the Securities and Exchange Commission may be further amplified by the global impact of the COVID-19 pandemic. Investors should also be aware that while the Company from time to time does communicate with securities analysts, it is against the Company's policy to disclose to them any material non-public information or other confidential commercial information. Furthermore, the Company has a policy against distributing or confirming financial forecasts or projections issued by analysts and any reports issued by such analysts are not the responsibility of the Company. Investors should not assume that the Company agrees with any report issued by any analyst or with any statements, projections, forecasts or opinions contained in any such report. For details concerning these and other risks and uncertainties, see Part I, Item IA, "Risk Factors" contained in the Company's most recent Annual Report on Form 10-K, as well as the Company's quarterly reports on Form 10-Q and current reports on Form 8-K subsequently filed with the Securities and Exchange Commission from time to time.

Callaway Golf Company Trademarks: *The following marks and phrases, among others, are trademarks of the Company:Alpha Convoy, Apex, Apex DCB, Apex TCB, Apex Tour, Apex UW, APW, Arm Lock, Backstryke, Big Bertha, Big Bertha B21, Big Bertha REVA, Big T, Bird of Prey, Black Series, Bounty Hunter, C Grind, Callaway, Callaway Capital, Callaway Golf, Callaway Media Productions, Callaway Super Hybrid, Callaway X, Capital, Chev, Chev 18, Chevron Device, Chrome Soft, Chrome Soft X, Cirrus, Comfort Tech, CUATER, Cuater C logo, Cup 360, CXR, 360 Face Cup, Dawn Patrol, Demonstrably Superior And Pleasingly Different, Divine, Double Wide, Eagle, Engage, Epic, Epic Flash, Epic Max, Epic Max LS, Epic Speed, ERC, ERC Soft, Everyone's Game, Exo, Cage, Fast Tech Mantle, Flash Face Technology, Flash Face SS21, FT Optiforce, FT Performance, FT Tour, Fusion, Fusion Zero, GBB, GBB Epic, Gems, Golf Fusion, Gravity Core, Great Big Bertha, Great Big Bertha Epic, Grom, Groove- In- Groove Technology, Heavenwood, Hersatility,Hex Aerodynamics, Hex Chrome, HX, Hyper Dry, Hyper-Lite, Hyper Speed Face, I.D. Ball, Jack Wolfskin, Jailbird, Jailbreak, Jailbreak AI Speed Frame, Jailbreak AI Velocity Blades, JAWS MD5, Jewel Jam, Kings of Distance, Legacy, Life On Tour, Longer From Everywhere, Luxe, Mack Daddy,Magna, Majestic, MarXman, Mavrik, MD3 Milled, MD4 Tactical, MD5, MD 5 Jaws, Metal-X, Microhinge Face Insert, Microhinge Star, Mission:Ambition, Nanuk, NipIt, Number One Putter in Golf, O OGIO, O Works, Odyssey, Odyssey Works, Offset Groove in Groove, Ogio, OGIO ALPHA, OGIO ARORA, OGIO CLUB, OGIO FORGE, OGIO ME, OGIO RENEGADE, OGIO SAVAGE, OGIO SHADOW, OGIO XIX, Opti Flex, Opti Grip, Opti Shield, OptiFit, Opti Vent, ORG 7, ORG 14, ORG 15, Paw Print, PRESTIGE 7, ProType, R, Red Ball, R-Moto, Renegade, Rig 9800, Rossie, RSX, S2H2, Sabertooth, Shredder, Silencer, SLED, SoftFast, Solaire, Speed Regime, Speed Step, Steelhead XR, Steelhead, Strata, Stroke Lab, Stronomic, Sub Zero, Superhot, Supersoft, SureOut, TM, Tank, Tank Cruiser, Tech Series, Teron, Texapore, TMCA, Toe Up, Suite Suite, TopChallenge, TopChip , TopContender, TopDrive, TopGolf, TopGolf Crush, TopGolf Media, TopLife, TopPressure, TopScore, TopScramble, TopShot, TopTracer, TopTracer Range, Toulon, Toulon Garage, Tour Authentic, Tour Tested, Trade In! Trade Up!, TRAVISMATHEW, TravisMathew TM logo, Trionomer Cover, Truvis, Truvis Pattern, Tyro, udesign, Uptown, Versa, VFT, W Grind, Warbird, Weather Series, Wedgeducation, White Hot, White Hot OG, White Hot Tour, White Ice, World's Friendliest, X-12, X-14, X-16, X-18, X-20, X-22, X-24, XACT, X Face VFT, X Hot, X Hot Pro, X² Hot, X Series,X Tech, XR, XR 16, XSPANN, Xtra Traction Technology, Xtra Width Technology, XTT, 2-Ball.*

CALLAWAY GOLF COMPANY
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PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements (Unaudited)***

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

	June 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 415,204	$ 366,119
Restricted cash	2,469	—
Accounts receivable, net	325,275	138,482
Inventories	335,346	352,544
Prepaid expenses	55,028	20,318
Other current assets	120,728	35,164
Total current assets	1,254,050	912,627
Property, plant and equipment, net	1,264,886	146,495
Operating lease right-of-use assets, net	1,057,225	194,776
Intangible assets, net	1,556,637	484,339
Goodwill	2,021,908	56,658
Investment in golf-related venture	27,740	111,442
Other assets	89,388	74,263
Total assets	$ 7,271,834	$ 1,980,600
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 426,577	$ 276,209
Accrued employee compensation and benefits	95,427	30,937
Asset-based credit facilities	21,438	22,130
Operating lease liabilities, short-term	55,492	29,579
Construction advances	63,636	—
Deferred revenue	83,580	2,546
Other current liabilities	41,482	29,871
Total current liabilities	787,632	391,272
Long-term liabilities:		
Long-term debt (Note 7)	1,064,429	650,564
Operating lease liabilities, long-term	1,174,780	177,996
Deemed landlord financing, long-term	263,219	—
Deferred taxes, net	196,233	58,628
Other long-term liabilities	46,078	26,496
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Preferred stock, $0.01 par value, 3,000,000 shares authorized, none issued and outstanding at June 30, 2021 and December 31, 2020	—	—
Common stock, $0.01 par value, 360,000,000 shares authorized, 185,939,469 and 95,648,648 shares issued at June 30, 2021 and December 31, 2020, respectively	1,859	956
Additional paid-in capital	3,024,995	346,945
Retained earnings	724,393	360,228
Accumulated other comprehensive loss	(11,694)	(6,546)
Less: Common stock held in treasury, at cost, 2,588 and 1,446,408 shares at June 30, 2021 and December 31, 2020, respectively	(90)	(25,939)
Total shareholders' equity	3,739,463	675,644
Total liabilities and shareholders' equity	$ 7,271,834	$ 1,980,600

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Net revenues:				
Products	$ 591,410	$ 296,996	$ 1,151,368	$ 739,272
Services	322,231	—	413,894	—
Total net revenues	913,641	296,996	1,565,262	739,272
Costs and expenses:				
Cost of products	315,008	174,941	625,638	421,543
Cost of services, excluding depreciation and amortization	42,786	—	53,771	—
Other venue expenses	202,339	—	267,776	—
Selling, general and administrative expenses	221,124	115,215	395,004	256,969
Research and development expense	20,271	10,020	33,016	23,260
Goodwill and trade name impairment	—	174,269	—	174,269
Venue pre-opening costs	4,844	—	6,689	—
Total costs and expenses	806,372	474,445	1,381,894	876,041
Income (loss) from operations	107,269	(177,449)	183,368	(136,769)
Interest income	188	119	242	218
Interest expense	(29,064)	(12,282)	(46,575)	(21,496)
Gain on Topgolf investment	—	—	252,531	—
Other income (expense), net	(2,502)	13,997	6,529	20,477
Income (loss) before income taxes	75,891	(175,615)	396,095	(137,570)
Income tax (benefit) provision	(15,853)	(7,931)	31,890	1,220
Net income (loss)	$ 91,744	$ (167,684)	$ 364,205	$ (138,790)
Earnings (loss) per common share:				
Basic	$0.50	($1.78)	$2.40	($1.47)
Diluted	$0.47	($1.78)	$2.28	($1.47)
Weighted-average common shares outstanding:				
Basic	185,225	94,141	151,541	94,225
Diluted	194,334	94,141	159,639	94,225

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

CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Net income (loss)	$ 91,744	$ (167,684)	$ 364,205	$ (138,790)
Other comprehensive income (loss):				
Change in derivative instruments	403	(13,453)	6,717	(14,042)
Foreign currency translation adjustments	5,966	8,155	(10,277)	(6,781)
Comprehensive income (loss), before income tax on other comprehensive income items	98,113	(172,982)	360,645	(159,613)
Income tax provision (benefit) on derivative instruments	617	(3,023)	1,588	(3,453)
Comprehensive income (loss)	$ 97,496	$ (169,959)	$ 359,057	$ (156,160)

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

CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six months ended June 30, 2021	Six months ended June 30, 2020
Cash flows from operating activities:		
Net income (loss)	$ 364,205	$ (138,790)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	63,542	18,357
Lease amortization expense	26,896	16,313
Amortization of debt issuance costs	2,618	1,823
Debt discount amortization	6,527	1,483
Impairment loss	—	174,269
Deferred taxes, net	28,067	8,684
Non-cash share-based compensation	15,648	4,794
Loss on disposal of long-lived assets	100	123
Gain on Topgolf investment	(252,531)	—
Unrealized net gains on hedging instruments and foreign currency	(5,048)	(14,059)
Acquisition costs	(16,199)	—
Change in assets and liabilities, net of effect from acquisitions:		
Accounts receivable, net	(181,975)	(73,177)
Inventories	26,479	73,029
Leasing receivables	(11,199)	—
Other assets	(50,276)	13,984
Accounts payable and accrued expenses	62,414	(73,087)
Deferred revenue	16,651	595
Accrued employee compensation and benefits	25,211	(16,876)
Accrued warranty expense	—	143
Change in operating leases, net	(18,881)	(13,438)
Income taxes receivable/payable, net	(3,646)	(13,118)
Other liabilities	1,864	8,627
Net cash provided by (used in) operating activities	100,467	(20,321)
Cash flows from investing activities:		
Cash acquired in merger	171,294	—
Capital expenditures	(120,833)	(25,097)
Note receivable, net of discount	—	(5,234)
Net cash provided by (used in) investing activities	50,461	(30,331)
Cash flows from financing activities:		
Repayments of credit facilities, net	(110,757)	(89,029)
Proceeds from lease financing	24,799	—
Exercise of stock options	18,403	130
Acquisition of treasury stock	(12,538)	(21,953)
Repayments of long-term debt	(12,029)	(5,504)
Debt issuance cost	(5,441)	(9,119)
Payment on contingent earn-out obligation	(3,577)	—
Repayments of financing leases	(200)	(206)
Dividends paid	(3)	(1,891)
Proceeds from issuance of convertible notes	—	258,750
Proceeds from issuance of long-term debt	—	9,766
Premium paid for capped call confirmations	—	(31,775)
Net cash (used in) provided by financing activities	(101,343)	109,169
Effect of exchange rate changes on cash, cash equivalents and restricted cash	1,969	(767)
Net increase in cash, cash equivalents and restricted cash	51,554	57,750
Cash, cash equivalents and restricted cash at beginning of period	366,119	106,666
Cash, cash equivalents and restricted cash at end of period	$ 417,673	$ 164,416
Supplemental disclosures:		
Cash paid for income taxes, net	$ 6,566	$ 1,692
Cash paid for interest and fees	$ 41,422	$ 16,489
Non-cash investing and financing activities:		
Issuance of treasury stock and common stock for compensatory stock awards released from restriction	$ 18,315	$ 19,143
Accrued capital expenditures at period-end	$ 9,224	$ 1,861
Financed additions of capital expenditures	$ 9,256	$ —
Issuance of common stock in Topgolf merger	$ 2,650,201	$ —

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

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

	Shareholders' Equity Callaway Golf Company							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance at March 31, 2021	**185,613**	**$ 1,856**	**$ 3,016,902**	**$ 632,650**	**$ (17,446)**	**(941)**	**$ (21,143)**	**$ 3,612,819**
Acquisition of treasury stock	—	—	253	—	—	(9)	(290)	(37)
Exercise of stock options	327	3	(1,449)	—	—	869	19,592	18,146
Compensatory awards released from restriction	—	—	(1,750)	—	—	78	1,750	—
Share-based compensation	—	—	11,039	—	—	—	—	11,039
Stock dividends	—	—	—	(1)	—	—	1	—
Equity adjustment from foreign currency translation	—	—	—	—	5,966	—	—	5,966
Change in fair value of derivative instruments, net of tax	—	—	—	—	(214)	—	—	(214)
Net Income	—	—	—	91,744	—	—	—	91,744
Balance at June 30, 2021	**185,940**	**$ 1,859**	**$ 3,024,995**	**$ 724,393**	**$ (11,694)**	**(3)**	**$ (90)**	**$ 3,739,463**

	Shareholders' Equity Callaway Golf Company							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance at December 31, 2020	**95,649**	**$ 956**	**$ 346,945**	**$ 360,228**	**$ (6,546)**	**(1,446)**	**$ (25,939)**	**$ 675,644**
Common stock issued in Topgolf merger	89,776	898	2,649,303	—	—	—	—	2,650,201
Fair value of replacement awards converted in Topgolf merger	—	—	33,051	—	—	—	—	33,051
Common stock issued for replacement restricted stock awards	188	2	(2)	—	—	—	—	—
Acquisition of treasury stock	—	—	253	—	—	(409)	(12,791)	(12,538)
Exercise of stock options	327	3	(1,901)	—	—	909	20,301	18,403
Compensatory awards released from restriction	—	—	(18,315)	—	—	942	18,315	—
Share-based compensation	—	—	15,648	—	—	—	—	15,648
Stock dividends	—	—	13	(37)	—	1	24	—
Cash dividends ($0.01 per share)	—	—	—	(3)	—	—	—	(3)
Equity adjustment from foreign currency translation	—	—	—	—	(10,277)	—	—	(10,277)
Change in fair value of derivative instruments, net of tax	—	—	—	—	5,129	—	—	5,129
Net Income	—	—	—	364,205	—	—	—	364,205
Balance at June 30, 2021	**185,940**	**$ 1,859**	**$ 3,024,995**	**$ 724,393**	**$ (11,694)**	**(3)**	**$ (90)**	**$ 3,739,463**

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

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

	Shareholders' Equity Callaway Golf Company								
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance at March 31, 2020	**95,649**	**$ 956**	**$ 307,133**	**$ 517,004**	**$ (37,517)**	**(1,541)**	**$ (27,609)**	**$ 759,967**
Acquisition of treasury stock	—	—	—	—	—	(1)	(15)	(15)
Compensatory awards released from restriction	—	—	(1,014)	—	—	57	1,014	—
Share-based compensation	—	—	2,933	—	—	—	—	2,933
Stock dividends	—	—	(1)	(2)	—	—	3	—
Cash dividends ($0.01 per share)	—	—	—	(942)	—	—	—	(942)
Equity adjustment from foreign currency translation	—	—	—	—	8,155	—	—	8,155
Change in fair value of derivative instruments	—	—	—	—	(10,430)	—	—	(10,430)
Equity component of convertible notes, net of issuance costs and tax	—	—	57,077	—	—	—	—	57,077
Premiums paid for capped call confirmations, net of tax	—	—	(24,513)	—	—	—	—	(24,513)
Net loss	—	—	—	(167,684)	—	—	—	(167,684)
Balance at June 30, 2020	**95,649**	**$ 956**	**$ 341,615**	**$ 348,376**	**$ (39,792)**	**(1,485)**	**$ (26,607)**	**$ 624,548**

	Shareholders' Equity Callaway Golf Company							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance, December 31, 2019	**95,649**	**$ 956**	**$ 323,600**	**$ 489,382**	**$ (22,422)**	**(1,451)**	**$ (24,163)**	**$ 767,353**
Adoption of accounting standard	—	—	—	(289)	—	—	—	(289)
Acquisition of treasury stock	—	—	—	—	—	(1,168)	(21,953)	(21,953)
Exercise of stock options	—	—	(203)	—	—	20	333	130
Compensatory awards released from restriction	—	—	(19,143)	—	—	1,112	19,143	—
Share-based compensation	—	—	4,794	—	—	—	—	4,794
Stock dividends	—	—	3	(36)	—	2	33	—
Cash dividends ($0.01 per share)	—	—	—	(1,891)	—	—	—	(1,891)
Equity adjustment from foreign currency translation	—	—	—	—	(6,781)	—	—	(6,781)
Change in fair value of derivative instruments, net of tax	—	—	—	—	(10,589)	—	—	(10,589)
Equity component of convertible notes, net of issuance costs and tax	—	—	57,077	—	—	—	—	57,077
Premiums paid for capped call confirmations, net of tax	—	—	(24,513)	—	—	—	—	(24,513)
Net loss	—	—	—	(138,790)	—	—	—	(138,790)
Balance, June 30, 2020	**95,649**	**$ 956**	**$ 341,615**	**$ 348,376**	**$ (39,792)**	**(1,485)**	**$ (26,607)**	**$ 624,548**

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

CALLAWAY GOLF COMPANY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared by Callaway Golf Company (the "Company" or "Callaway Golf") pursuant to the rules and regulations of the Securities and Exchange Commission (the "Commission"). Accordingly, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 filed with the Commission. These consolidated condensed financial statements, in the opinion of management, include all the normal and recurring adjustments necessary for the fair presentation of the financial position, results of operations and cash flows for the periods and dates presented. Interim operating results are not necessarily indicative of operating results for the full year.

On March 8, 2021, the Company completed the merger with Topgolf International, Inc. ("Topgolf") and has included the results of operations of Topgolf in its consolidated condensed statements of operations from that date forward. The Company's Topgolf subsidiary operates on a 52- or 53-week fiscal year ending on the Sunday closest to December 31. As such, the Topgolf financial information included in the Company's consolidated condensed financial statements for the six months ended June 30, 2021 is from March 8, 2021 through July 4, 2021. Additionally, based on the Company's assessment of the combined business, the Company modified the presentation of its consolidated condensed statements of operations for the three and six months ended June 30, 2021 and 2020, and its consolidated condensed balance sheets as of June 30, 2021 and December 31, 2020. For further information about the merger with Topgolf, see Note 6. In connection with the merger, the Company reassessed its operating segments by evaluating its global business platform, including its management structure after the addition of Topgolf, and determined that as of March 31, 2021, the Company has three operating segments, namely, Golf Equipment, Apparel, Gear and Other, and Topgolf. For further information about the Company's operating segments, see Note 19.

Note 2. Summary of Significant Accounting Policies

The following reflects updates to the Company's significant accounting policies disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 filed with the Commission.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Examples of such estimates include determining the nature and timing of satisfaction of performance obligations as it relates to revenue recognition, the valuation of share-based awards, recoverability of long-lived assets, assessing intangible assets and goodwill for impairment, determining the incremental borrowing rate for operating leases, in addition to provisions for warranty, uncollectible accounts receivable, inventory obsolescence, sales returns, future price concessions and tax contingencies and valuation allowances as well the estimated useful lives of property, plant and equipment and acquired intangible assets. Actual results may materially differ from these estimates. On an ongoing basis, the Company reviews its estimates to ensure that these estimates appropriately reflect changes in its business or as new information becomes available.

Recent Accounting Standards

In July 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2021-05, "Leases (Topic 842): Lessors - Certain Leases with Variable Lease Payments" which requires lessors to classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if both of the following criteria are met: (1) the lease would have been classified as a sales-type lease or a direct financing lease in accordance with the classification criteria in ASC 842-10-25-2 through 25-3; and (2) the lessor would have otherwise recognized a day-one loss. The amendments are effective for annual periods beginning after December 15, 2021 with early adoption permitted. The Company is currently assessing the impact of this ASU on its consolidated condensed financial statements.

In August 2020, FASB issued ASU No. 2020-06, "Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity." This ASU simplifies the accounting for convertible instruments by removing the separation models for (1) convertible debt with a cash conversion feature and (2) convertible instruments with a beneficial conversion feature. As a result, a convertible debt instrument will be accounted for as a single liability measured at its amortized cost. These changes will reduce reported interest expense and increase reported net income for entities that have issued a convertible instrument that was bifurcated according to previously existing rules. Also, this ASU requires the application of the if-converted method for calculating diluted earnings per share and the treasury stock method will be no longer available. The new guidance is effective for fiscal years beginning after December 15, 2021, with early adoption permitted no earlier than fiscal years beginning after December 15, 2020. Entities may adopt the guidance through either a modified retrospective method of transition or a fully retrospective method of transition. In applying the modified retrospective method, entities should apply the guidance to transactions outstanding as of the beginning of the fiscal year in which the amendments are adopted. The Company is currently assessing the impact this ASU will have on its consolidated condensed financial statements. The Company anticipates adopting the modified retrospective approach, which may result in a significant increase in its dilutive share-count as the result of calculating the impact of dilution from its convertible notes using the if-converted method. The Company also anticipates a decrease in interest expense resulting from the elimination of the original issuance discount. Under the modified retrospective approach, the Company anticipates recognizing the difference between the removal of the equity component of the convertible notes and the unamortized original issuance discount as an adjustment to beginning retained earnings when it adopts this new standard on January 1, 2022.

Adoption of New Accounting Standards

The Company adopted ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This ASU provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference the London Inter-bank Offered Rate ("LIBOR") or another reference rate expected to be discontinued. In January 2021, the FASB issued Accounting Standards Update ("ASU") 2021-01, "Reference Rate Reform (Topic 848): Scope." This ASU clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. The Company has elected to apply the hedge accounting expedients related to the probability and the assessments of effectiveness of LIBOR-indexed cash flow hedges upon a change in the critical terms of the derivative or the hedged transactions, and upon the end of relief under Topic 848. The Company has elected to continue the method of assessing effectiveness as documented in the original hedge documentation and elects to apply the expedient in ASC 848-50-35-17 (through 35-18) which allows the reference rate on the hypothetical derivative to match the reference rate on the hedging instrument. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements and disclosures.

The Company adopted ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." This ASU removes specific exceptions to the general principles in Accounting Standards Codification ("ASC") Topic 740, "Accounting for Income Taxes" ("Topic 740") and simplifies certain U.S. GAAP requirements. This ASU did not have a material impact on the Company's consolidated condensed financial statements or disclosures.

Significant Accounting Policies

Leases

The Company leases office space, manufacturing plants, warehouses, distribution centers, Company-operated Topgolf venues, vehicles, and equipment, as well as retail and/or outlet locations related to the TravisMathew and Jack Wolfskin businesses and the apparel business in Japan. Certain real estate leases include one or more options to extend the lease term, options to purchase the leased property at the Company's sole discretion or escalation clauses that increase the rent payments over the lease term. When deemed reasonably certain of exercise, the renewal and purchase options are included in the determination of the lease term and lease payment obligation, respectively. The depreciable life of machinery and equipment, computer equipment and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise. Certain leases may require an additional contingent rent payment based on a percentage of total gross sales greater than certain specified threshold amounts. The Company recognizes contingent rent expense when it is probable that sales thresholds will be reached during the fiscal year. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Right-of-use ("ROU") assets represent the right to use an underlying asset during the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term. When readily determinable, the Company uses the rate implicit in the lease agreement in determining the present value of minimum lease payments. If the implicit rate is not provided, the Company uses its incremental borrowing rate based on information available at the lease commencement date, including the lease term. At the commencement of a lease, the ROU asset for operating leases is measured by taking the sum of the present value of the lease liability, initial direct costs (if any) and prepaid lease payments (if any) and deducting lease incentives (if any). After the lease commencement date and over the lease term, lease expense is recognized as a single lease cost on a straight-line basis. Lease agreements related to properties are generally comprised of lease components and non-lease components. Non-lease components, such as common area maintenance charges, property taxes and insurance, are expensed as incurred and recognized separately from the straight-line lease expense. Variable lease payments that do not depend on an index or rate, such as rental payments based on a percentage of retail revenue over contractual levels, are expensed separately as incurred, and are not included in the measurement of the ROU asset and lease liability. Variable lease payments that depend on an index or rate, such as rates that are adjusted periodically for inflation, are included in the initial measurement of the ROU asset and lease liability and are recognized on a straight-line basis over the lease term.

In certain venue leasing arrangements, due to the Company’s involvement in the construction of leased assets, the Company is considered the owner of the leased assets for accounting purposes. In such cases, in addition to capitalizing the Company’s construction costs, the Company capitalizes the construction costs funded by the landlord related to its leased premises and recognizes a corresponding liability for those costs as construction advances during the construction period. At the end of the construction period, the Company applies sale and leaseback guidance to determine whether the underlying asset should be derecognized. When the application of the sale and leaseback guidance results in a sale, the asset and liability on the Company’s balance sheet are derecognized. When the application of the sale and leaseback guidance results in a failed sale, the asset remains on the Company’s balance sheet and is depreciated over its respective useful life or the lease term, whichever is shorter, and the liability is accounted for as a deemed landlord financing obligation. These deemed landlord financing obligations are generally non-cancelable leases with initial terms of 20 years containing various renewal options following the initial term and escalation clauses that increase the payments over the lease term.

With respect to the Company’s Toptracer operations, the Company enters into non-cancelable license agreements that provide software and hardware to driving ranges and hospitality and entertainment venues. These license agreements provide the customer the right to use Company-owned software and hardware products for a specified period generally ranging from three to five years. The software and hardware are a distinct bundle of goods that are highly interrelated. At the inception of the arrangement, lease classification is assessed which generally results in the license agreements being classified as sales-type leases. Upon lease commencement for sales-type leases, revenue is recognized consisting of initial payments received and the present value of payments over the non-cancellable term.

Revenue Recognition

The Company accounts for revenue recognition of products and services in accordance with Accounting Standards Codification (“ASC”) Topic 606, "Revenue from Contracts with Customers." See Note 4.

<u>Product Revenue</u>

The Company recognizes revenue from the sale of its golf clubs, golf balls, lifestyle and outdoor apparel, gear and accessories and golf apparel and accessories when it satisfies the terms of a sales order from a customer, and transfers control of the products ordered to the customer. Control transfers when products are shipped, and in certain cases, when products are received by customers under certain contract terms. In addition, the Company recognizes revenue at the point of sale on transactions with consumers at its retail locations and retail shops at Topgolf locations. Sales taxes, value added taxes and other taxes that are collected in connection with revenue transactions are withheld and remitted to the respective taxing authorities. As such, these taxes are excluded from revenue. The Company elected to account for shipping and handling as activities to fulfill the promise to transfer the good. Therefore, shipping and handling fees that are billed to customers are recognized in revenue and the associated shipping and handling costs are recognized in cost of products as soon as control of the goods transfers to the customer.

The Company, in exchange for a royalty fee, licenses its trademarks and service marks to third parties for use on products such as golf apparel and footwear, practice aids and other golf accessories. Royalty income is recognized over time as underlying product sales occur, subject to certain minimum royalties, in accordance with the related licensing arrangements. Royalty income is included in the Company's Apparel, Gear and Other operating segment.

Revenues from gift cards are deferred and recognized when the cards are redeemed for product purchases. The Company’s gift cards have no expiration date. The Company recognizes revenue from unredeemed gift cards, otherwise known as breakage, when the likelihood of redemption becomes remote and under circumstances that comply with any applicable state escheatment laws. To determine when redemption is remote, the Company analyzes an aging of unredeemed cards (based on the date the card was last used or the activation date if the card has never been used) and compares that information with historical redemption trends. The Company uses this historical redemption rate to recognize breakage on unredeemed gift cards over the redemption period. The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to determine the timing of recognition of gift card revenues.

Services Revenue

The Company recognizes revenue from the operation of its Topgolf venues consisting primarily of revenues from food and beverage sales, event deposits, fees charged for gameplay, purchases of game credits and membership fees. In addition, services revenues are recognized through the redemption of gift cards, sponsorship contracts, franchise fees, leasing revenue, the Company’s World Golf Tour ("WGT") digital golf game and non-refundable deposits for venue reservations.

The Company's food and beverage revenue is recognized at the time of sale. Event deposits received from guests attributable to food and beverage purchases are deferred and recognized as revenue when the event is held. Food and beverage revenues are presented net of discounts. All sales taxes collected from guests are excluded from revenue in the consolidated condensed statements of operations and the obligation is included in accrued expenses on the Company’s consolidated condensed balance sheets until the taxes are remitted to the appropriate taxing authorities.

Fees charged for gameplay are recognized at the time of purchase. Event deposits received from guests attributable to gameplay purchases are deferred and recognized as revenue when the event is held. Purchases of game credits are deferred and recognized as revenue when: (i) the game credits are redeemed by the guest; or (ii) the likelihood of the game credits being redeemed by the guest is remote (“game credit breakage”). The Company uses historic game credit redemption patterns to determine the likelihood of game credit redemption. Game credit breakage is recorded consistent with the historic redemption pattern.

Membership fees received from guests are deferred and recognized as revenue over the estimated life of the associated membership, which is one year.

Revenues from gift cards to purchase for food and beverage or gameplay at Topgolf locations are deferred and recognized when the cards are redeemed, consistent with the gift card policy on product revenues.

The Company enters into sponsorship contracts that provide advertising opportunities to market to Topgolf guests in the form of custom displays, lobby displays, digital and print posters and other advertising at Topgolf venues and on Topgolf websites. Sponsorship contracts are typically for a fixed price over a specified length of time and revenue is generally recognized ratably over the contract period unless there is a different predominate pattern of performance.

The Company enters into international development agreements that grant franchise partners the right to develop, open and operate a certain number of venues within a particular geographic area. The franchise partner may be required to pay a territory fee upon entering into a development agreement and a franchise fee for each developed venue. The franchisee will also pay ongoing royalty fees based upon a percentage of sales. The initial franchise term provided for each venue generally ranges from 15 to 20 years and provides the option for renewal. Revenue from sales-based royalties is recognized as the related sales occur.

Leasing revenue results from non-cancelable sales-type lease agreements that provide Toptracer software and hardware to driving ranges and hospitality and entertainment venues. See discussion above on sales-type leases.

The Company’s WGT digital golf game is a live service that allows players to play for free via web and mobile gaming platforms. Within the WGT digital golf game, players can purchase virtual currency to obtain virtual goods to enhance their game-playing experience. Revenues from purchases of virtual currency are deferred at the point of purchase and recognized as revenue over the average life of a player, determined using historic gameplay activity patterns.

Non-refundable deposits received for venue reservations are recognized at the time of purchase.

Variable Consideration

The Company offers certain discounts and promotions on its products and services. The amount of revenue the Company recognizes is based on the amount of consideration it expects to receive from customers. The amount of consideration is the sales price adjusted for estimates of variable consideration, including sales returns, discounts, and allowances as well as sales programs, sales promotions and price concessions that are offered by the Company as described below. These estimates are based on the amounts earned or to be claimed by customers on the related sales and are therefore recorded as reductions to net revenue and trade accounts receivable.

The Company’s primary sales program, the “Preferred Retailer Program,” offers potential rebates and discounts for participating retailers in exchange for providing certain benefits to the Company, including the maintenance of agreed upon inventory levels, prime product placement and retailer staff training. Under this program, qualifying retailers can earn either discounts or rebates based upon the amount of product purchased. Discounts are applied and recorded at the time of sale. For rebates, the Company estimates the amount of variable consideration related to the rebate at the time of sale based on the customer’s estimated qualifying current year product purchases. The estimate is based on the historical level of purchases, adjusted for any factors expected to affect the current year purchase levels. The estimated year-end rebate is adjusted quarterly based on actual purchase levels, as necessary. The Preferred Retailer Program is generally short-term in nature and the actual amount of rebate to be paid under this program is known as of the end of the year and paid to customers shortly after year-end. Historically, the Company's actual amount of variable consideration related to its Preferred Retailer Program has not been materially different from its estimates.

The Company also offers short-term sales program incentives, which include sell-through promotions and price concessions or price reductions. Sell-through promotions are generally offered throughout the product's life cycle of approximately two years, and price concessions or price reductions are generally offered at the end of the product's life cycle. The estimated variable consideration related to these programs is based on a rate that includes historical and forecasted data. The Company records a reduction to product revenues using this rate at the time of the sale. The Company monitors this rate against actual results and forecasted estimates and adjusts the rate as deemed necessary to reflect the amount of consideration it expects to receive from its customers. There were no material changes to the rate during the three months ended June 30, 2021 and 2020. Historically, the Company's actual amount of variable consideration related to these sales programs has not been materially different from its estimates.

The Company records an estimate for anticipated returns as a reduction of sales and cost of sales, and accounts receivable, in the period that the related sales are recorded. Sales returns are estimated based upon historical returns, current economic trends, changes in customer demands and sell-through of products. The Company also offers certain customers sales programs that allow for specific returns. The Company records a return liability as an offset to accounts receivable for anticipated returns related to these sales programs at the time of the sale based on the terms of the sales program. The cost recovery of inventory associated with this reserve is accounted for in other current assets. Historically, the Company’s actual sales returns have not been materially different from management’s original estimates.

Cost of Products

The Company’s cost of products is comprised primarily of variable costs that fluctuate with sales volumes, including raw materials and component costs, merchandise from third parties, conversion costs including direct labor and manufacturing overhead, and inbound freight, duties, and shipping charges. In addition, cost of products includes retail merchandise costs for products sold in retail shops within Topgolf venue facilities. Fixed overhead expenses include warehousing costs, indirect labor, and supplies, as well as depreciation expense associated with assets used to manufacture and distribute products. In addition, cost of products includes adjustments to reflect inventory at its net realizable value, as well as adjustments for obsolescence and product warranties.

Cost of Services, Excluding Depreciation and Amortization

The Company’s cost of services primarily consists of food and beverage costs and transaction fees with respect to in-app purchases within the Company’s WGT digital golf game. In addition, cost of services includes costs associated with Topgolf's Toptracer license agreements classified as sales-type leases. Food and beverage costs are variable by nature, change with sales volume, and are impacted by product mix and commodity pricing. Cost of services excludes employee costs as well as depreciation and amortization.

Other Venue Expenses

Other venue expenses consists of salaries and wages, bonuses, commissions, payroll taxes, and other employee costs that directly support venue operations, in addition to rent and occupancy costs, property taxes, depreciation associated with venues, supplies, credit card fees and marketing expenses. Other venue expenses include both fixed and variable components and are therefore not directly correlated with revenue.

Venue Pre-Opening Costs

Pre-opening costs primarily include costs associated with activities prior to the opening of a new company-operated venue, as well as other costs that are not considered in the evaluation of ongoing performance. Pre-opening costs fluctuate based on the timing, size and location of new company-operated venues.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses are comprised primarily of employee costs, advertising and promotional costs, tour expenses, legal and professional fees, travel expenses, building and rent expenses, depreciation charges (excluding those related to manufacturing and distribution operations), amortization of intangible assets, and other miscellaneous expenses.

Research and Development

Research and development expenses are comprised of costs to develop or significantly improve the Company's products and technology, which primarily include the salaries and wages of personnel engaged in research and development activities, research costs and depreciation expense. Other than software development costs qualifying for capitalization, research and development costs are expensed as incurred.

Restricted Cash

Restricted cash is primarily comprised of lender impound reserve accounts for development of one of the Company’s venues. The following is a summary of cash, cash equivalents and restricted cash as of June 30, 2021 and December 31, 2020 (in thousands):

	June 30, 2021	December 31, 2020
Cash and cash equivalents	$ 415,204	$ 366,119
Restricted cash	2,469	—
Total cash, cash equivalents and restricted cash	$ 417,673	$ 366,119

Inventories

Unless otherwise stated below, the Company's inventory is recorded at the lower of cost or net realizable value, which includes a reserve for excess, obsolete and/or unmarketable inventory. This reserve is regularly assessed based on current inventory levels, sales trends, and historical experience, as well as management’s estimates of market conditions and forecasts of future product demand, all of which are subject to change. The Company utilizes the standard costing method, determined on the first-in, first-out basis, for its golf equipment inventory and soft goods inventory sold under the TravisMathew, OGIO, Callaway and Jack Wolfskin brands. Golf equipment inventory, which is directly manufactured by the Company, includes finished goods, raw materials, labor and manufacturing overhead costs and work in process. The Company's soft goods product lines, which are manufactured by third-party contractors, primarily include finished good products. Toptracer hardware and software, food and beverage products and Topgolf-specific retail merchandise inventories are stated at weighted average cost.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives generally as follows:

Buildings and improvements	10-40 years
Machinery and equipment	5-10 years
Furniture, computer hardware and equipment	3-5 years
Internal-use software	3-5 years
Production molds	2-5 years

Buildings capitalized in conjunction with deemed landlord financing where the Company is deemed to be the accounting owner are depreciated, less residual value, over the shorter of 20 years or the lease term.

Normal repairs and maintenance costs are expensed as incurred. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. The related costs and accumulated depreciation of disposed assets are eliminated and any resulting gain or loss on disposition is recognized in earnings. Construction in-process consists primarily of costs associated with building improvements, machinery and equipment and venues under construction that have not yet been placed into service, unfinished molds as well as in-process internal-use software.

In accordance with ASC Topic 350-40, “Internal-Use Software,” the Company capitalizes certain costs incurred in connection with developing or obtaining internal use software. Costs incurred in the preliminary project stage are expensed. All direct external costs and internal direct labor costs incurred to develop internal-use software during the development stage are capitalized and depreciated using the straight-line method over the remaining estimated useful lives. Costs such as maintenance and training are expensed as incurred. In accordance with ASC Topic 985-20, “Costs of Software to Be Sold, Leased, or Marketed,” costs incurred to establish the technological feasibility of software to be sold, leased, or otherwise marketed are expensed and recorded in research and development expense on the consolidated condensed statements of operations. Once technological feasibility is established, costs are capitalized until the product is available for general use.

Goodwill and Intangible Assets

The Company's intangible assets, which are comprised of goodwill, trade names, trademarks, service marks, trade dress, customer and distributor relationships, developed technology, non-competes, patents and liquor licenses, were acquired in connection with the acquisitions of Odyssey Sports, Inc., FrogTrader, Inc., OGIO, TravisMathew, Jack Wolfskin, certain foreign distributors and the recently completed merger with Topgolf on March 8, 2021.

In accordance with ASC Topic 350, “Intangibles—Goodwill and Other,” goodwill and intangible assets with indefinite lives are not amortized but instead are measured for impairment at least annually or more frequently when events indicate that an impairment exists. The Company calculates impairment as the excess of the carrying value of goodwill and other indefinite-lived intangible assets over their estimated fair value of the reporting unit. If the carrying value of the reporting unit exceeds the estimate of fair value a write-down is recorded. To determine fair value, the Company uses discounted cash flow estimates, quoted market prices, royalty rates when available and independent appraisals when appropriate.

During the second quarter of 2020, due to the significant disruptions caused by the COVID-19 pandemic on the Company's operations, the Company performed a qualitative assessment considering the macroeconomic conditions caused by the COVID-19 pandemic, and the potential impact on the Company's revenue and operating income for the remainder of fiscal 2020 and potentially beyond. As a result, the Company determined that there were indicators of impairment, and proceeded with a quantitative assessment to test the recoverability of goodwill for all its reporting units, in addition to the recoverability of indefinite-lived intangible assets, consisting primarily of the trade names and trademarks associated with the Company's brands. Based on this assessment, the Company determined that the fair values of the Jack Wolfskin reporting unit and the Jack Wolfskin trade name were less than their carrying values. As a result, during the second quarter of 2020, the Company recognized impairment losses to write-off the goodwill associated with the Jack Wolfskin reporting unit and write-down the trade name associated with the Jack Wolfskin brand name to its new estimated fair value. There were no further impairments recognized over the remainder of 2020. For further discussion, see Note 9.

Intangible assets that are determined to have definite lives are amortized over their estimated useful lives and are measured for impairment in accordance with ASC Topic 360-10-35, “Impairment or Disposal of Long-Lived Assets” as discussed above, only when events or circumstances indicate the carrying value may be impaired. See Note 9 for further discussion of the Company's intangible assets.

Costs related to the development, maintenance, or renewal of internally developed intangible assets that are inherent in the Company's continuing business and relate to the Company as a whole, that were not acquired as a part of a business combination or asset acquisition, are expensed as incurred.

Note 3. Leases

The Company leases office space, manufacturing plants, warehouses, distribution centers, Company-operated Topgolf venues, vehicles, and equipment, as well as retail and/or outlet locations related to the TravisMathew and Jack Wolfskin businesses and the apparel business in Japan. The Company also enters into non-cancellable agreements with driving ranges and hospitality and entertainment venues to license Toptracer software and hardware, which are classified as sales-type leases.

Sales-Type Leases

Leasing revenue attributed to sales-type leases was $10,986,000 and $14,879,000 for the three and six months ended June 30, 2021, respectively, which is comprised of $13,585,000 in initial licensing payments and $1,294,000 in monthly lease payments. Revenue from sales-type leases are included in services revenues within the consolidated condensed statements of operations. Leasing receivables related to the Company's net investment in sales-type leases are as follows (in thousands):

	Balance Sheet Location	June 30, 2021
Leasing receivables, net - current	Other current assets	$ 9,983
Leasing receivables - long-term	Other assets	36,309
		$ 46,292

Operating and Finance Leases

In response to the COVID-19 pandemic, the Company received certain rent concessions in the form of deferments and abatement on a few of its operating leases. The Company opted to not modify these leases in accordance with the FASB Staff Q&A-Topic 842 and Topic 840: "Accounting For Lease Concessions Related to the Effects of the COVID-19 Pandemic" issued in April 2020, and account for these concessions as if they were made under the enforceable rights included in the original agreement. Rent deferments were recorded as a payable and paid at a later negotiated date. Rent abatements were recognized as reductions in rent expense over the periods covered by the abatement period. As of June 30, 2021 the Company recorded rent deferments of $10,697,000, of which $1,804,000 was recorded in accrued expenses, and $8,894,000 was recorded in other long-term liabilities in the consolidated condensed balance sheets. Of the rent deferments recorded as of June 30, 2021, $10,309,000 was recorded in connection with the Topgolf merger in March 2021. As of December 31, 2020 the Company recorded rent deferments of $687,000. There were no rent abatements recorded for the three and six months ended June 30, 2021 or 2020.

Supplemental balance sheet information related to leases is as follows (in thousands):

	Balance Sheet Location	June 30, 2021	December 31, 2020
Operating Leases			
ROU assets, net	Operating lease ROU assets, net	$ 1,057,225	$ 194,776
Lease liabilities, short-term	Operating lease liabilities, short-term	$ 55,492	$ 29,579
Lease liabilities, long-term	Operating lease liabilities, long-term	$ 1,174,780	$ 177,996
Finance Leases			
ROU assets, net,	Other assets	$ 2,077	$ 1,003
Lease liabilities, short-term	Accrued expenses	$ 1,169	$ 252
Lease liabilities, long-term	Long-term other	$ 1,672	$ 447

The components of lease expense are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Operating lease costs	$ 40,915	$ 10,279	$ 61,412	$ 21,301
Financing lease costs:				
Amortization of right-of-use assets	854	153	1,177	320
Interest on lease liabilities	26	11	46	22
Total financing lease costs	880	164	1,223	342
Variable lease costs	1,953	587	2,532	1,883
Total lease costs	$ 43,748	$ 11,030	$ 65,167	$ 23,526

Other information related to leases was as follows (in thousands):

	Six Months Ended June 30,	
Supplemental Cash Flows Information	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 52,513	$ 18,227
Operating cash flows from finance leases	$ 311	$ 22
Financing cash flows from finance leases	$ 200	$ 206
Lease liabilities arising from new ROU assets:		
Operating leases	$ 33,000	$ 53,417
Finance leases	$ 188	$ 130

	June 30, 2021	December 31, 2020
Weighted average remaining lease term (years):		
Operating leases	14.4	9.8
Finance leases	2.6	3.0
Weighted average discount rate:		
Operating leases	8.2 %	5.3 %
Finance leases	5.4 %	3.9 %

Future minimum lease obligations as of June 30, 2021 were as follows (in thousands):

	Operating Leases	Finance Leases
Remainder of 2021	$ 67,587	$ 584
2022	149,746	1,261
2023	147,019	771
2024	143,893	367
2025	142,622	24
Thereafter	1,514,983	8
Total future lease payments	2,165,850	3,015
Less: imputed interest	935,578	174
Total	$ 1,230,272	$ 2,841

Lease payments exclude $896,854,000 related to 16 non-cancellable leases that have been signed as of June 30, 2021 but have not yet commenced. Of the 16 leases, three are scheduled to commence in 2021. The Company's minimum capital commitment related to these leases was approximately $178,000,000 as of June 30, 2021. As the Company is actively involved in the construction of these properties, the Company recorded $124,731,000 in construction costs within property, plant and equipment as of June 30, 2021. Additionally, as of June 30, 2021, the Company recorded $63,636,000 in construction advances from the landlord in connection with properties. The Company will determine the lease classification for properties currently under construction at the end of the construction period. The initial base term upon the commencement of these leases is generally 20 years.

Financing Obligations (Deemed Landlord Financing Contracts)

During the six months ended June 30, 2021, the Company accounted for four deemed landlord financing ("DLF") contracts that did not meet the sale-leaseback criteria upon the completion of construction in accordance with ASC Topic 842. As of June 30, 2021, the Company was the accounting owner of a total of twelve buildings under DLF contracts. As of June 30, 2021, the net book value included in property, plant and equipment on the consolidated condensed balance sheets related to these buildings totaled $323,590,000. Buildings capitalized in conjunction with DLF contracts are depreciated, less residual value, over 20 years or over their estimated useful life, whichever is shorter.

Supplemental balance sheet information related to DLF contracts is as follows (in thousands):

	Balance Sheet Location	June 30, 2021
DLF contracts liabilities, short-term	Accrued expenses	$ 516
DLF contracts liabilities, long-term	Deemed landlord financing, long-term	$ 263,219

The components of DLF contracts expenses are as follows (in thousands):

	Three Months Ended June 30, 2021	Six Months Ended June 30, 2021
Amortization of DLF contracts	$ 1,337	$ 1,704
Interest on DLF contracts	5,638	7,146
Total DLF contracts expenses	$ 6,975	$ 8,850

Other information related to DLF contracts was as follows (in thousands):

Supplemental Cash Flows Information	Six Months Ended June 30, 2021
Financing cash flows from DLF contracts	$ 8,789

	June 30, 2021
Weighted average remaining lease term (years)	19.4
Weighted average discount rate	8.9 %

Future minimum financing obligations related to DLF contracts as of June 30, 2021 were as follows (in thousands):

Remainder of 2021	$ 9,845
2022	23,225
2023	23,062
2024	23,253
2025	23,581
Thereafter	412,498
Total future lease payments	515,464
Less: imputed interest	251,729
Total	$ 263,735

Note 4. Revenue Recognition

The Company primarily recognizes revenue from the sale of its products and operation of its venues. Revenue from product sales include golf clubs, golf balls, lifestyle and outdoor apparel, gear and accessories and golf apparel and accessories. The Company sells its products to customers, which include on- and off-course golf shops and national retail stores, as well as to consumers through its e-commerce business and at its apparel retail and venue locations. The

Company's product revenues also includes royalty income from third parties from the licensing of certain soft goods products. Revenue from services primarily includes venue sales of food and beverage and fees charged for gameplay, and the sale of game credits to guests. Service revenues also include franchise fees from franchised international venues, as well as revenue from gift cards, sponsorship contracts, franchise fees, leasing revenue and non-refundable deposits received for venue reservations. In addition, the Company recognizes service revenues through its online multiplayer WGT digital golf game.

The Company's contracts with customers for its products are generally in the form of a purchase order. In certain cases, the Company enters into sales agreements containing specific terms, discounts and allowances. The Company enters into licensing agreements with certain distributors and, with respect to the Company's Toptracer operations, driving ranges and hospitality and entertainment venues.

The Company has three operating and reportable segments, namely the Golf Equipment operating segment, the Apparel, Gear and Other operating segment, and the Topgolf operating segment. On March 8, 2021, the Company completed its merger with Topgolf. The Company's results of operations, therefore, include the operations of Topgolf from that date forward. Topgolf contributed $325,453,000 in net revenues for the three months ended June 30, 2021, and $418,090,000 for the six months ended June 30, 2021, which includes approximately four months of revenues since the completion of the merger.

The following table presents the Company's revenue disaggregated by major product category and operating and reportable segment (in thousands):

	Operating and Reportable Segments						
	Three Months Ended June 30, 2021				Three Months Ended June 30, 2020		
	Golf Equipment	Apparel, Gear & Other	Topgolf	Total	Golf Equipment	Apparel, Gear & Other	Total
Major revenue categories:							
Golf clubs	$ 319,973	$ —	$ —	$ 319,973	$ 156,040	$ —	$ 156,040
Golf balls	81,286	—	—	81,286	53,903	—	53,903
Apparel	—	91,413	—	91,413	—	36,302	36,302
Gear, accessories & other	—	95,516	—	95,516	—	50,751	50,751
Venues	—	—	303,424	303,424	—	—	—
Other business lines	—	—	22,029	22,029	—	—	—
	$ 401,259	$ 186,929	$ 325,453	$ 913,641	$ 209,943	$ 87,053	$ 296,996

	Operating and Reportable Segments						
	Six Months Ended June 30, 2021				Six Months Ended June 30, 2020		
	Golf Equipment	Apparel, Gear & Other	Topgolf	Total	Golf Equipment	Apparel, Gear & Other	Total
Major product category:							
Golf Clubs	$ 636,326	$ —	$ —	$ 636,326	$ 407,264	$ —	$ 407,264
Golf Balls	141,815	—	—	141,815	94,340	—	94,340
Apparel	—	186,703	—	186,703	—	113,592	113,592
Gear, Accessories & Other	—	182,328	—	182,328	—	124,076	124,076
Venues	—	—	388,594	388,594	—	—	—
Other business lines	—	—	29,496	29,496	—	—	—
	$ 778,141	$ 369,031	$ 418,090	$ 1,565,262	$ 501,604	$ 237,668	$ 739,272

The Topgolf segment included $3,221,000 and $4,195,000, respectively, in sales of golf clubs, golf balls, and apparel sales, which are reflected within product sales within the consolidated condensed statements of operations for the three and six months ended June 30, 2021.

The Apparel, Gear and Other and Topgolf segments include royalty income from licensing agreements of $22,240,000 and $33,108,000, respectively, for the three and six months ended June 30, 2021. For the three months and six months ended June 30,2020, the Company recognized royalty income of $3,552,000 and $9,097,000, respectively.

As of December 31, 2020, the Company's balance for deferred revenue was $2,546,000, which included deferred revenue from gift cards. In connection with the merger with Topgolf completed on March 8, 2021, the Company acquired deferred revenue related to event deposits, lifetime and premium memberships, prepaid sponsorships, virtual currency and game credits related to the WGT digital golf game, and gift cards. As of June 30, 2021, the Company’s deferred revenue balance was $83,580,000.

The Company recognized revenues of $97,232,000 and $125,278,000 related to the redemption and amortization of deferred revenue, including gift card breakage, during the three and six months ended June 30, 2021, respectively. The Company recognized revenues of $454,000 and $1,030,000 related to the redemption and breakage of gift cards during the three and six months ended June 30, 2020, respectively.

The following table summarizes revenue by geographical areas in which the Company operates (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue by Major Geographic Region:				
United States	$ 642,757	$ 171,714	$ 1,030,979	$ 389,217
Europe	120,999	50,074	229,344	146,793
Japan	61,861	24,640	133,747	101,987
Rest of World	88,024	50,568	171,192	101,275
	$ 913,641	$ 296,996	$ 1,565,262	$ 739,272

The Company sells its golf equipment products and apparel, gear and accessories in the United States and internationally, with its principal international regions being Japan and Europe. On a regional basis, sales of golf equipment are generally higher than sales of apparel gear and other in most regions other than Europe, which has a higher concentration of apparel, gear and other sales as a result of Jack Wolfskin, which is headquartered in Germany. Venues revenue is higher in the United States, as Topgolf has more domestic venues than international. Other business lines revenue is predominantly in the United States and Europe.

The Company records an estimate for anticipated returns as a reduction of product revenues and cost of products, and accounts receivable, in the period that the related sales are recorded. Sales returns are estimated based upon historical returns, current economic trends, changes in customer demands and sell-through of products. The Company also offers certain customers sales programs that allow for specific returns. The Company records a return liability as an offset to accounts receivable for anticipated returns related to these sales programs at the time of sale based on the terms of the sales program. The cost recovery of inventory associated with this reserve is accounted for in other current assets. The Company's provision for sales returns will fluctuate with the seasonality of the business, while actual sales returns are generally more heavily weighted toward the back half of the year as the golf season comes to an end. Historically, the Company’s actual sales returns have not been materially different from management’s original estimates.

The following table provides a reconciliation of the activity related to the Company’s sales return reserve (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Beginning balance	$ 60,784	$ 50,992	$ 43,986	$ 34,314
Provision	29,000	26,374	64,890	62,010
Sales returns	(18,192)	(20,529)	(37,284)	(39,487)
Ending balance	$ 71,592	$ 56,837	$ 71,592	$ 56,837

Note 5. Estimated Credit Losses

The Company's trade accounts receivable are recorded at net realizable value, which includes an appropriate allowance for estimated credit losses, as well as reserves related to product returns and sales programs as described in Note 4. Under ASC Topic 326, the “expected credit loss” model replaces the “incurred loss” model and requires consideration of a broader range of information to estimate expected credit losses over the life of the asset. Specific allowance amounts are established to record the appropriate provision for customers that have a higher probability of default. An estimate of credit losses for the remaining customers in the aggregate is based upon historical bad debts, current customer receivable balances, age of customer receivable balances, the customers' financial condition, all of which are subject to change. Additionally, the Company's monitoring activities now consider future reasonable and supportable forecasts of economic conditions to adjust all general reserve percentages as necessary. Balances are written off when determined to be uncollectible. The Company considered the current and expected future economic and market conditions surrounding the COVID-19 pandemic and determined, based on current information, that the estimate of credit losses as of June 30, 2021 was not significantly impacted.

Actual uncollected amounts have historically been consistent with the Company's expectations. The Company's payment terms on its receivables from customers are generally 60 days or less.

The following table provides a reconciliation of the activity related to the Company's allowance for estimated credit losses (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Beginning balance	$ 6,801	$ 6,140	$ 8,841	$ 5,992
Adjustment due to the adoption of Topic 326	—	—	—	289
(Recovery)/provision for credit losses	152	3,619	(226)	3,632
Write-off of uncollectible amounts, net of recoveries	(252)	(815)	(1,914)	(969)
Ending balance	$ 6,701	$ 8,944	$ 6,701	$ 8,944

Note 6. Business Combinations

Merger with Topgolf International, Inc.

On March 8, 2021, the Company completed its previously announced merger with Topgolf, pursuant to the terms of an Agreement and Plan of Merger, dated as of October 27, 2020 (the "Merger Agreement"). Topgolf is a leading tech-enabled golf entertainment business, with an innovative platform that comprises its state-of-the-art open-air golf and entertainment venues, revolutionary Toptracer ball-tracking technology and innovative media platform with a differentiated position in eSports. The combined company will benefit from a compelling family of brands with reach across multiple channels including retail, venues, e-commerce and digital communities.

Pursuant to the terms of the Merger Agreement, at the closing of the merger, the Company issued approximately 89,776,450 unrestricted and fully vested shares of its common stock to the stockholders of Topgolf (excluding approximately 12,329,721 shares of the Company's common stock that would have been allocated to the Company in the merger based on the shares of Topgolf held by the Company) for 100% of the outstanding equity of Topgolf, at an exchange ratio based on an equity value of Topgolf of $1,987,000,000 (or $1,748,000,000 excluding Topgolf shares that were held by the Company) and a price per share of the Company's common stock fixed at $19.40 per share (the "Callaway Share Price"). The actual purchase consideration upon the closing of the merger of $3,014,174,000 (or $2,650,201,000 excluding Topgolf shares that were held by the Company) was based on the number of shares of the Company's common stock issued, multiplied by the closing price of $29.52 of the Company's common stock on March 8, 2021. Additionally, the Company converted certain stock options previously held by former equity holders of Topgolf into options to purchase a number of shares of Callaway common stock, and certain outstanding restricted stock awards of Topgolf, into 187,568 shares of Callaway common stock (together, the "replacement awards"). The Company included $33,051,000 in the consideration transferred in the merger for these replacement awards, which represents the fair value of the vested portion the replacement awards. The unvested portion of these replacement awards related to future services that will be rendered in the post-combination period will be recognized as compensation expense over the remaining vesting period. In addition, the Company converted issued and outstanding warrants to purchase certain preferred shares of Topgolf into a warrant to purchase a number of shares of Callaway common stock. The fair value of the consideration transferred in the merger related to these warrants totaled $1,625,000. The purchase consideration, together with the fair value of the consideration transferred for outstanding stock awards and warrants totaled $3,048,850,000.

The Company previously held approximately 14.3% of Topgolf's outstanding shares. Immediately following the closing of the merger, the Company's stockholders, as of immediately prior to the merger, owned approximately 51.3% of the outstanding shares of the combined company, and former Topgolf stockholders, other than Callaway, owned approximately 48.7% of the outstanding shares of the combined company.

The Company allocated the purchase price to the net identifiable tangible and intangible assets acquired and liabilities assumed based on their preliminary estimated fair values as of the date of acquisition. Identifiable intangible assets include the Topgolf trade name, developed technology, Topgolf's investment in Swing Suite golf and multi-sport simulator, customer relationships and liquor licenses. The excess of the purchase price over the estimated fair value of the net assets and liabilities was allocated to goodwill. The Company determined the preliminary estimated fair values after review and consideration of relevant information as of the acquisition date, including discounted cash flows, quoted market prices and estimates made by management. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are preliminary based on management's estimates and assumptions and may be subject to change as additional information is received and certain tax returns are finalized. We expect to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

The allocation of the purchase price presented below was based on management's preliminary estimate of the fair values of the acquired assets and assumed liabilities using valuation techniques including income, cost and market approaches. These valuation techniques incorporate the use of expected future revenues, cash flows and growth rates as well as estimated discount rates. Current and noncurrent assets and liabilities are valued at historical carrying values, which approximates fair value, except as described below. The trade name was valued under the royalty savings income approach method, which is equal to the present value of the after-tax royalty savings attributable to owning the trade name as opposed to paying a third party for its use. For this valuation the Company used a royalty rate of 2.5%, which is reflective of royalty rates paid in market transactions, and a discount rate of 7.0% to 8.5% on the future cash flows generated by the net after-tax savings. The fair value of the Topgolf hitting bays, Toptracer ball-tracking technology and the WGT digital game was based on a combination of valuation methodologies, including the residual net income approach, royalty savings income approach and the cost approach. Customer relationships and liquor licenses were valued using the replacement cost method. The Company amortizes the fair value of the finite-lived intangibles, which include technology and customer relationships, over a period ranging between one and ten years. Additionally, the Company completed a market analysis of the assumed operating and deemed landlord financed leases to determine if the terms of these leases are favorable or unfavorable relative to market terms. The analysis resulted in a net unfavorable adjustment in the underlying value of the right-of-use asset of each lease. The Company also completed a replacement cost analysis of property, plant and equipment, which resulted in an overall step-up in value. The Company based the estimated fair value of the debt assumed on a market credit rating, current interest rates and repayment terms, which resulted in an overall decrease in value. As of June 30, 2021, the Company did not complete its assessment of the fair value of the right-of-use assets of operating and deemed landlord financed leases, and deferred taxes. Additionally, the Company is still in the process of reviewing and evaluating fair value estimates as included herein. Upon the completion of these assessments, the Company will adjust the preliminary purchase price allocation accordingly. After assessing the preliminary fair value of the net assets acquired and liabilities assumed, the Company recorded goodwill of $1,965,321,000, of which the Company attributed $1,402,101,000 to the future revenues and growth potential of the Topgolf business, and $563,220,000 to the synergies the Company anticipates from leveraging the Topgolf business to expand its golf equipment and apparel businesses. For the operating segment allocation of goodwill, see Note 9. As a non-taxable stock acquisition, the Company does not expect the value attributable to the acquired intangibles and goodwill to be tax deductible.

In connection with the merger, during the six months ended June 30, 2021, the Company recognized transaction costs of approximately $16,199,000, consisting primarily of advisor, legal, valuation and accounting fees. These transaction costs were recorded in selling, general & administrative expenses. During the three months ended June 30, 2020, the Company recognized $444,000 in transaction costs associated with the merger.

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date based on the preliminary purchase price allocation (in thousands):

	At March 8, 2021
Assets Acquired	
Cash	$ 171,294
Accounts receivable	11,277
Inventories	13,828
Other current assets	52,233
Property and equipment	1,018,647
Operating lease right-of-use assets	833,812
Investments	28,162
Other assets	33,664
Intangibles - trade name	994,200
Intangibles - technology & customer relationships	91,929
Goodwill	1,402,101
Total assets acquired	4,651,147
Liabilities Assumed	
Accounts Payable and accrued liabilities	90,140
Accrued employee costs	36,992
Construction advances	60,333
Deferred revenue	64,359
Other current liabilities	7,821
Long-term debt	535,096
Deemed landlord financing	179,718
Operating lease liabilities	1,023,338
Other long-term liabilities	23,539
Deferred tax liabilities	144,181
Net assets acquired	$ 2,485,630
Goodwill allocated to other business units	563,220
Total purchase price and consideration transferred in the merger	$ 3,048,850

Supplemental Pro-Forma Information (Unaudited)

The following table presents supplemental pro-forma information for the three and six months ended June 30, 2021 and 2020 as if the merger with Topgolf had occurred on January 1, 2020. These amounts have been calculated after applying the Company's accounting policies and are based upon currently available information. For this analysis, the Company assumed that gains and costs associated with the merger, including a gain of $252,531,000 recognized on the Company's pre-acquisition investment in Topgolf, acquisition costs of $16,199,000, the amortization of estimated intangible assets and other fair value adjustments, as well as the tax effect on those costs, and a valuation allowance on certain acquired net operating losses and tax credit carryforwards (see Note 6), were recognized as of January 1, 2020. Pre-acquisition net sales and net income amounts for Topgolf were derived from the books and records of Topgolf prepared prior to the acquisition and are presented for informational purposes only and do not purport to be indicative of the results of future operations or of the results that would have occurred had the acquisition taken place as of the dates noted below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)		*(in thousands)*	
Net revenues	$ 913,641	$ 342,767	$ 1,708,206	$ 1,008,901
Net income (loss)	$ 59,552	$ (272,089)	$ 103,767	$ (106,340)

Supplemental Information of Operating Results

For the three months ended June 30, 2021, the Company's consolidated condensed statements of operations included net revenues of $325,453,000 and net income of $620,000 attributable to Topgolf. For the six months ended June 30, 2021, the Company's consolidated condensed statements of operations included net revenues of $418,090,000 and a net loss of $2,437,000 for the period beginning April 5, 2021 through July 4, 2021. The Topgolf results of operations for three months ended June 30, 2021 include depreciation and amortization of $33,531,000, interest expense of $1,459,000 related to the accretion of the fair value adjustment on long-term debt, and transaction, transition and other non-recurring charges of $2,503,000. For the six months ended June 30, 2021, Topgolf results include depreciation and amortization of $44,362,000, interest expense of $1,752,000 related to the accretion of the fair value adjustment on long-term debt, and transaction, transition and non-recurring costs of $18,731,000.

Note 7. Financing Arrangements

The Company's debt obligations are summarized as follows (in thousands):

	June 30, 2021				December 31, 2020
	Maturity Date	Interest Rate	Unamortized Debt Issuance Costs	Carrying Value	Carrying Value
Short-Term Credit Facilities					
U.S. Asset-Based Revolving Credit Facility	May 17, 2024	3.00 %	$ 1,391	$ 21,438	$ 22,130
Japan ABL Facility	January 21, 2022	1.28 %	—	—	—
			$ 1,391	$ 21,438	$ 22,130
Balance Sheet Location					
Prepaid expenses			$ 1,043	$ —	$ —
Other long-term assets			348	—	—
Asset-based credit facilities			—	21,438	22,130
			$ 1,391	$ 21,438	$ 22,130

	June 30, 2021				December 31, 2020
	Maturity Date	Interest Rate	Unamortized Original Issuance Discount and Debt Issuance Costs	Carrying Value, net	Carrying Value, net
Long-Term Debt and Credit Facility					
Japan Term Loan Facility	July 31, 2025	0.86 %	$ —	$ 15,300	$ 18,390
Term Loan B Facility	January 4, 2026	4.59 %	17,171	422,029	428,150
Topgolf Term Loan	February 8, 2026	7.00 %	7,037	335,088	—
Topgolf Revolving Credit Facility	February 8, 2024	4.75 %	7,127	42,873	—
Convertible Notes	May 1, 2026	2.75 %	70,087	188,663	183,126
Equipment Notes	December 27, 2022 - March 19, 2027	2.36% - 3.79%	—	27,655	31,822
Mortgage Loans	July 1, 2033 - July 29, 2036	9.75% - 11.31%	—	46,634	—
Financed Tenant Improvements	February 1, 2035	8.00 %	—	3,727	3,801
			$ 101,422	$ 1,081,969	$ 665,289
Balance Sheet Location					
Other current liabilities			$ 3,816	$ 17,540	$ —
Accrued expenses			—	—	14,725
Long-term debt			97,606	1,064,429	650,564
			$ 101,422	$ 1,081,969	$ 665,289

Revolving Credit Facilities and Available Liquidity

In addition to cash on hand, as well as cash generated from operations, the Company relies on its U.S. and Japan asset-based revolving credit facilities and the Topgolf revolving credit facility to manage seasonal fluctuations in liquidity and to provide additional liquidity when the Company's operating cash flows are not sufficient to fund the Company's requirements. As of June 30, 2021, the Company had $71,438,000 outstanding under these facilities and $415,204,000 in cash and cash equivalents. As of June 30, 2021, the Company's available liquidity, which is comprised of cash on hand and amounts available under the Company's revolving credit facilities, after letters of credit and outstanding borrowings, was $876,786,000. As of June 30, 2020, the Company had $55,551,000 outstanding under its U.S. and Japan facilities, and $164,416,000 in cash and cash equivalents. As of June 30, 2020, the Company's available liquidity, which is comprised of cash on hand and amounts available under its U.S. and Japan facilities, after letters of credit and outstanding borrowings, was $483,110,000.

U.S. Asset-Based Revolving Credit Facility

In May 2019, the Company entered into a Fourth Amended and Restated Loan and Security Agreement with Bank of America N.A. and other lenders, which provides a senior secured asset-based revolving credit facility of up to $400,000,000 (the "ABL Facility"), comprised of a $260,000,000 U.S. facility, a $70,000,000 German facility, a $25,000,000 Canadian facility and a $45,000,000 United Kingdom facility, in each case subject to borrowing base availability under the applicable facility. The amounts outstanding under the ABL Facility are secured by certain assets, including cash (to the extent pledged by the Company), certain intellectual property, certain eligible real estate, inventory and accounts receivable of the Company's subsidiaries in the United States, Germany, Canada and the United Kingdom. The real estate and intellectual property components of the borrowing base under the ABL Facility are both amortizing. The amount available for the real estate portion is reduced quarterly over a 15-year period, and the amount available for the intellectual property portion is reduced quarterly over a 3-year period.

Amounts borrowed under the ABL Facility may be repaid and borrowed as needed. The entire outstanding principal amount (if any) is due and payable on the maturity date. Amounts available under the ABL Facility increase and decrease with changes in the Company's inventory and accounts receivable balances. During the six months ended June 30, 2021, average outstanding borrowings were $19,008,000 and average amount available, after outstanding borrowings and letters of credit, was approximately $296,027,000.

In April 2020, the Company amended the ABL Facility to permit a customary capped call transaction (see "Convertible Senior Notes" below) in connection with the issuance of convertible debt securities by the Company and to permit the Company to incur loans or financial assistance of up to $50,000,000 pursuant to governmental programs enacted due to the COVID-19 pandemic. As of June 30, 2021, the Company had not drawn on these funds. In addition, the ABL Facility imposes restrictions on the amount the Company could pay in annual cash dividends, including certain restrictions on the amount of additional indebtedness and requirements to maintain a certain fixed charge coverage ratio under certain circumstances. In addition, in connection with the merger with Topgolf (see Note 6), the Company amended the ABL Facility to, among other things, permit the consummation of the merger, designate Topgolf and its subsidiaries as excluded subsidiaries under the ABL Facility and amend certain covenants and other provisions to allow the Company to make certain investments in, and enter into certain transactions with Topgolf. Fees in connection with this amendment will be combined with existing debt origination and amendment fees and amortized over the remaining term of the ABL Facility.

The ABL Facility includes certain restrictions including, among other things, restrictions on the incurrence of additional debt, liens, stock repurchases and other restricted payments, asset sales, investments, mergers, acquisitions and affiliate transactions. Additionally, the Company is subject to compliance with a fixed charge coverage ratio covenant of at least 1.0 to 1.0 during, and continuing 30 days after, any period in which the Company's borrowing base availability, as amended, falls below 10% of the maximum facility amount or $40,000,000. The Company's borrowing base availability was above $40,000,000 during the six months ended June 30, 2021, and the Company was in compliance with the fixed charge coverage ratio as of June 30, 2021. Had the Company not been in compliance with the fixed charge coverage ratio as of June 30, 2021, the maximum amount of additional indebtedness that could have been outstanding on June 30, 2021 would have been reduced by $40,000,000. As of June 30, 2021, in addition to the fixed charge coverage ratio covenant, the Company was in compliance with all other financial covenants of the ABL Facility.

The interest rate applicable to outstanding loans under the ABL Facility fluctuates depending on the Company's "availability ratio" which is expressed as a percentage of (i) the average daily availability under the ABL Facility to (ii) the sum of the Canadian, the German, the U.K. and the U.S. borrowing bases, as adjusted. At June 30, 2021 the Company's trailing 12-month average interest rate applicable to its outstanding loans under the ABL Facility was 3.11%. Additionally, the ABL Facility provides for monthly fees of 0.25% of the unused portion of the ABL Facility.

Fees in connection with the origination of the ABL Facility and prior amendments are amortized in interest expense over the term of the facility.

Japan ABL Facility

In January 2021, the Company refinanced the asset-based loan agreement between its subsidiary in Japan and The Bank of Tokyo-Mitsubishi UFJ, Ltd (the "Japan ABL Facility"), which provides a credit facility of up to 4,000,000,000 Yen (or U.S. $36,000,000, using the exchange rate in effect as of June 30, 2021) over a one-year term, subject to borrowing base availability under the Japan ABL Facility. The amounts outstanding are secured by certain assets, including eligible inventory and eligible accounts receivable. The Japan ABL Facility also includes certain restrictions including covenants related to certain pledged assets and financial performance metrics. As of June 30, 2021, the Company was in compliance with these covenants.

The Japan ABL Facility is subject to an effective interest rate equal to the Tokyo Interbank Offered Rate ("TIBOR") plus 1.20%.

Long-Term Debt

Japan Term Loan Facility

In August 2020, the Company entered into a five-year Term Loan facility (the "Japan Term Loan Facility") between its subsidiary in Japan and Sumitomo Mitsui Banking Corporation ("SMBC") for 2,000,000,000 Yen (or approximately U.S. $18,000,000 using the exchange rate in effect as of June 30, 2021).

As of June 30, 2021, the Company had 1,700,000,000 Yen (or approximately U.S. $15,300,000 using the exchange rate in effect as of June 30, 2021) outstanding, of which 400,000,000 Yen (or approximately U.S. $3,600,000 using the exchange rate in effect as of June 30, 2021) is reflected in other current liabilities in the accompanying consolidated condensed balance sheets. Total interest expense recognized during the three and six months ended June 30, 2021 was 3,721,000 Yen (or approximately U.S. $34,000) and 7,612,000 Yen (or approximately U.S. $71,000), respectively.

Loans under the Japan Term Loan Facility are subject to a rate per annum of either, at the Company's option, SMBC TIBOR or TIBOR plus 80 basis points. Principal payments of 100,000,000 Yen (or approximately U.S. $900,000 using the exchange rate in effect as of June 30, 2021) are due quarterly, and the facility imposes certain restrictions including covenants to certain financial performance obligations. As of June 30, 2021, the Company was in compliance with these covenants.

Term Loan B Facility

In January 2019, to fund the purchase price of the Jack Wolfskin acquisition, the Company entered into a Credit Agreement (the "Credit Agreement") with Bank of America, N.A and other lenders party to the Credit Agreement (the "Term Lenders"). The Credit Agreement provides for a Term Loan B facility (the "Term Loan Facility") in an aggregate principal of $480,000,000, which was issued less $9,600,000 in original issue discount and other transaction fees. Such principal amount may be increased pursuant to incremental facilities in the form of additional tranches of term loans or new commitments, up to a maximum incremental amount of $225,000,000, or an unlimited amount subject to compliance with a first lien net leverage ratio of 2.25 to 1.00. Total interest and amortization expense recognized during the three months ended June 30, 2021 and 2020 was $6,077,000 and $6,320,000, respectively. Total interest and amortization expense recognized during the six months ended June 30, 2021 and 2020 was $11,924,000 and $13,770,000, respectively.

Loans under the Term Loan Facility are subject to interest at a rate per annum equal to either, at the Company's option, the LIBOR rate or the base rate, plus 4.50% or 3.50%, respectively. The Company utilizes an interest rate hedge in order to mitigate the risk of interest rate fluctuations on this facility. See Note 16 for further information on this hedging contract. Principal payments of $1,200,000 are due quarterly, however the Company has the option to prepay any outstanding loan balance in whole or in part without premium or penalty. In addition, as of December 31, 2019, the Term Loan Facility requires excess cash flow payments.

Loans outstanding under this facility are guaranteed by the Company's domestic subsidiaries. The loans and guaranties are secured by substantially all the assets of the Company and guarantors.

The Credit Agreement contains a cross-default provision with respect to any indebtedness of the Company as defined in the Credit Agreement, as well as customary representations and warranties and customary affirmative and negative covenants, including, among other things, restrictions on incurrence of additional debt, liens, dividends and other restricted payments, asset sales, investments, mergers, acquisitions and affiliate transactions. Events of default permitting acceleration under the Credit Agreement include, among others, nonpayment of principal or interest, covenant defaults, material breaches of representations and warranties, bankruptcy and insolvency events, certain cross defaults or a change of control. As of June 30, 2021, the Company was in compliance with these covenants.

In connection with the merger with Topgolf (see Note 6), the Company amended the Term Loan Facility with Bank of America, N.A. and the Term Lenders to, among other things, permit the consummation of the Merger and certain other transactions contemplated in the Merger Agreement, designate Topgolf and its subsidiaries as unrestricted subsidiaries under the Term Loan Facility and amend certain covenants and other provisions to allow the Company to make certain investments in, and enter into certain transactions with Topgolf.

Topgolf Credit Facilities

In connection with the merger with Topgolf on March 8, 2021, the Company assumed a $350,000,000 term loan facility (the "Topgolf Term Loan"), and a $175,000,000 revolving credit facility with JPMorgan Chase Bank, N.A (the "Topgolf Revolving Credit Facility"), with JPMorgan Chase Bank, N.A., as Administrative Agent, Swingline Lender and Issuing Bank, RBC Capital Markets, as Syndication Agent, and the other agents, arrangers and lenders party thereto (together, the "Topgolf Credit Facilities"). Subsequent to June 30, 2021, the Company paid $10,000,000 on the outstanding principal of the Topgolf Revolving Credit Facility.

Borrowings under the Topgolf Term Loan accrue interest at a rate per annum equal to, at the Company's option, either (i) an alternate base rate determined by reference to the highest of (a) the prime rate of JPMorgan Chase Bank, N.A. (the administrative agent), (b) the federal funds effective rate plus 0.50%, (c) the adjusted one-month LIBOR rate plus 1.00%, and (d) 1.75%, or (ii) an adjusted LIBOR rate (for a period equal to the relevant interest period) (which shall not be less than 0.75%), in each case plus an applicable margin. The applicable margin for loans under the Topgolf Term Loan is 5.25% with respect to alternate base rate borrowings and 6.25% with respect to LIBOR borrowings.

Borrowings under the Topgolf Revolving Credit Facility accrue interest at a rate per annum equal to, at the Company's option, either (i) an alternate base rate determined by reference to the highest of (a) the prime rate of JPMorgan Chase Bank, N.A. (the administrative agent), (b) the federal funds effective rate plus 0.50%, (c) the adjusted one-month LIBOR rate plus 1.00%, and (d) 1.75%, or (ii) an adjusted LIBOR rate (for a period equal to the relevant interest period) (which shall not be less than 0.75%), in each case plus an applicable margin. The applicable rate for the Topgolf Revolving Credit Facility loans is 3.00% with respect to alternate base rate borrowings and 4.00% with respect to LIBOR borrowings subject to two stepdowns of 0.25% per annum upon achievement of specified first lien leverage ratio levels. In addition, the Company is required to pay a commitment fee under the Topgolf Revolving Credit Facility based upon the first lien leverage ratio (as defined in the Amended Credit Agreement) at a rate of up to 0.50% per annum, subject to two stepdowns of 0.13% per annum upon achievement of specified first lien leverage ratio levels. The Company must also pay customary letter of credit fees and agency fees.

The Topgolf Term Loan is payable in quarterly installments of 0.25% of the principal amount per quarter. The remaining unpaid balance on the Topgolf Term Loan, together with all accrued and unpaid interest thereon, is due upon maturity. Outstanding borrowings under the Topgolf Revolving Credit Facility do not amortize and are due and payable upon maturity.

The terms of the Topgolf Credit Facilities require the Company to maintain on a quarterly basis a total leverage ratio (measured on a trailing four-quarter basis) less than or equal to 5.50:1.00. On September 17, 2020, prior to the completion of the merger, Topgolf entered into an amendment to the Credit Agreement (the “Amended Credit Agreement”) to modify the financial covenants and make certain other changes. The Amended Credit Agreement (i) suspends the total leverage ratio financial covenant through and including the fiscal quarter ending on or about March 31, 2022 and (ii) provides for an increased level of 7.75:1.00 for the fiscal quarter ending on or about June 30, 2022, in each case unless the Company elects to restore the 5.50:1.00 total leverage ratio test (and eliminate the restrictions in the Amended Credit Agreement that apply during the period of relief) at an earlier date. Until the Company demonstrates compliance with the 5.50:1.00 total leverage ratio test for the period ending on or about September 30, 2022 (or terminate the period of relief at an earlier date after demonstrating compliance with the 5.50:1.00 total leverage ratio test), the Company is required to maintain unrestricted cash on hand and/or availability under the Topgolf Credit Facilities of not less than $30,000,000. As of June 30, 2021, the Company was in compliance with these covenants.

The Topgolf Credit Facilities also contains certain customary representations and warranties and affirmative covenants, and certain reporting obligations. The Topgolf Term Loan also contains certain customary representations and warranties and affirmative covenants, and certain reporting obligations.

Convertible Notes

On May 4, 2020, the Company issued $258,750,000 of 2.75% Convertible Senior Notes (the “Convertible Notes”). The Convertible Notes bear interest at a rate of 2.75% per annum on the principal amount, payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2020. The Convertible Notes mature on May 1, 2026,

unless earlier redeemed or repurchased by the Company or converted. The Convertible Notes are structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, and (to the extent the Company is not a holder thereof) preferred equity, if any, of the Company’s subsidiaries.

The Company may settle the Convertible Notes through cash settlement, physical settlement, or combination settlement at its election. Therefore, the Convertible Notes were separated into a liability component and an equity component in a manner that reflects the interest cost of a similar nonconvertible debt instrument. At inception, the fair value of the liability component was determined by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the liability component was $188,663,000 as of June 30, 2021. The carrying amount of the equity component (the conversion feature) and discount on the Convertible Notes, totaling $64,986,000 as of June 30, 2021, is amortized over the remaining term of approximately 4.9 years. The conversion feature of $76,508,000 was determined by deducting the fair value of the liability component from the initial proceeds ascribed to the Convertible Notes.

The Company incurred $8,527,000 of cost associated with the issuance of the Convertible Notes. These debt issuance costs were allocated between the debt and equity components in proportion to the allocation of the proceeds to those components. As such, $6,005,000 was allocated to the liability component of the Convertible Notes, and $2,522,000 was allocated to the equity conversion feature. The discount on the Convertible Notes as well as the debt issuance costs allocated to the liability component are amortized over the term of the Convertible Notes using the effective interest rate method.

All or any portion of the Convertible Notes may be converted at the conversion rate and at the holders' option on or after February 1, 2026 until the close of business on the second trading day immediately prior to the maturity date. Additionally, all or any portion of the Convertible Notes may be converted at the conversion rate at the holders' option upon the occurrence of certain contingent conversion events, including (i) if the price of the Company’s common stock is more than 130% of the conversion price of the Convertible Notes for any 20 of 30 consecutive trading days ending on the last trading day of the calendar quarter, subsequent to the quarter ending September 30, 2020; (ii) if the trading price of the Convertible Notes, after a consecutive ten trading day period, is less than 98% of the closing price per share of the Company’s common stock multiplied by the conversion rate in effect (iii) upon the occurrence of certain corporate events or distributions on the Company’s common stock, as described in the Indenture; or (iv) if the Company calls the Convertible Notes for redemption.

Upon conversion, the Company has the option to settle the conversion obligation in any combination of cash and shares. The initial conversion rate is 56.7698 shares of the Company's common stock per $1,000 principal amount of Convertible Notes, which is equal to an initial conversion price of $17.62 per share. At June 30, 2021, the price of the Company's common stock was higher than the initial conversion price. Therefore, the if-converted value of the Convertible Notes exceeded the principal amount.

The Company may redeem all or part of the Convertible Notes (i) on or after May 6, 2023, but before the 40th trading day prior to the maturity date if the last reported sale price of the Company’s common stock exceeds 130% of the conversion price for any 20 of 30 consecutive trading days; (ii) upon a Fundamental Change (where holders can require settlement entirely in cash); or (iii) upon an Event of Default. The Company will also be required to pay additional interest upon (i) failure to timely file with the Commission, (ii) failure to allow the Convertible Notes to be freely tradable, or (iii) upon an Event of Default solely related to failure to timely file with the trustee.

In connection with the pricing of the Convertible Notes on April 29, 2020, the Company paid $31,775,000 to enter into privately negotiated capped call transactions (“Capped Calls”) with Goldman Sachs & Co. LLC, Bank of America, N.A. and Morgan Stanley & Co. LLC as well as with each of the option counterparties. The Capped Calls cover the aggregate number of shares of the Company’s common stock that initially underlie the Convertible Notes, and are expected generally to reduce the potential dilution to the Company’s common stock upon any conversion of the Convertible Notes, and/or offset any cash payments the Company is required to make in excess of the principal amount of converted Convertible Notes, with such reduction and/or offset subject to a cap based on the cap price. The cap price of the Capped Calls is initially $27.10. The Capped Calls are recorded as a reduction to additional paid-in capital and are not accounted for as derivatives.

The Convertible Notes will have an impact on the Company’s diluted earnings per share when the average market price of its common stock exceeds the conversion price of $17.62 per share, as the Company intends to settle the principal amount of the Convertible Notes in cash upon conversion. For the six months ended June 30, 2021, the average market

price of the Company's common stock was $31.11, which exceeded the conversion price. As such, the Company used the treasury stock method to compute the dilutive shares of common stock related to the Convertible Notes for periods the Company reported net income. Upon conversion, there will be no economic dilution from the Convertible Notes until the average market price of the Company’s common stock exceeds the cap price of $27.10 per share, as exercise of the Capped Calls offsets any dilution from the Convertible Notes from the conversion price up to the cap price. Capped Calls are excluded from the calculation of diluted earnings per share, as they would be anti-dilutive under the treasury stock method.

Equipment Notes

Between December 2017 and August 2020, the Company entered into four long-term financing agreements (the “Equipment Notes”) with Bank of America N.A. and other lenders to invest in its golf ball manufacturing facility in Chicopee, Massachusetts, its North American Distribution Center in Roanoke, Texas, and in corporate IT equipment. The loans are secured by the underlying equipment at each facility and the IT equipment.

Interest expense recognized during the three months ended June 30, 2021 and 2020 was $221,000 and $212,000, respectively. Interest expense recognized during the six months ended June 30, 2021 and 2020 was $460,000 and $377,000, respectively.

The Equipment Notes are subject to compliance with the financial covenants in the Company's ABL Facility. As of June 30, 2021, the Company was in compliance with these covenants.

Mortgage Loans

In connection with the merger with Topgolf on March 8, 2021, the Company assumed three mortgage loans related to the construction of three venues. The loans require either monthly (i) principal and interest payments or (ii) interest-only payments until their maturity dates. For loans requiring monthly interest-only payments, the entire unpaid principal balance and any unpaid accrued interest is due on the maturity date. The mortgage loans are secured by the assets of each respective venue.

The following table presents the Company's combined aggregate amount of maturities for the Company's long-term debt over the next five years and thereafter as of June 30, 2021. Amounts payable under the ABL Facility are excluded from this table as they are short-term in nature. Amounts payable under the Term Loan Facility included below represent the minimum principal repayment obligations. As of June 30, 2021, the Company does not anticipate excess cash flow repayments as defined by the Term Loan Facility.

	(in thousands)
Remainder of 2021	$ 10,489
2022	21,237
2023	18,581
2024	67,357
2025	14,159
Thereafter	1,051,568
	$ 1,183,391

Note 8. Earnings per Common Share

Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding for the period.

Diluted earnings per common share takes into account the potential dilution that could occur if outstanding securities were exercised. Dilutive securities are included in the calculation of diluted earnings per common share using the treasury stock method in accordance with ASC Topic 260, “Earnings per Share.” Dilutive securities include outstanding stock options, restricted stock units and performance share units granted to employees and non-employee directors (see Note 15), as well as common shares underlying convertible notes (see Note 7).

Weighted-average common shares outstanding—diluted is the same as weighted-average common shares outstanding—basic in periods when a net loss is reported or in periods when anti-dilution occurs.

The following table summarizes the computation of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Earnings per common share—basic				
Net income (loss)	$ 91,744	$ (167,684)	$ 364,205	$ (138,790)
Weighted-average common shares outstanding—basic[1]	185,225	94,141	151,541	94,225
Basic earnings (loss) per common share	$ 0.50	$ (1.78)	$ 2.40	$ (1.47)
Earnings per common share—diluted				
Net income (loss)	$ 91,744	$ (167,684)	$ 364,205	$ (138,790)
Weighted-average common shares outstanding—basic[1]	185,225	94,141	151,541	94,225
Convertible notes weighted-average shares outstanding	6,850	—	6,105	—
Outstanding options, restricted stock units and performance share units	2,259	—	1,993	—
Weighted-average common shares outstanding—diluted	194,334	94,141	159,639	94,225
Diluted earnings (loss) per common share	$ 0.47	$ (1.78)	$ 2.28	$ (1.47)

(1) In connection with the Topgolf merger, on March 8, 2021, the Company issued 89,776,450 of its common stock to the stockholders of Topgolf, and 187,568 of its common stock for restricted stock awards converted in the merger (see Note 15), of which 89,964,018 and 56,662,420 weighted average shares for the three and six months ended June 30, 2021, respectively, were included in the basic and diluted share calculations based on the number of days the shares were outstanding during the periods.

In May 2020, the Company issued $258,750,000 of 2.75% Convertible Notes. The Convertible Notes will have an impact on the Company's diluted earnings per share when the average market price of its common stock exceeds the conversion price of $17.62 per share, as the Company intends to settle the principal amount of the Convertible Notes in cash upon conversion. The Company is required under the treasury stock method to compute the potentially dilutive shares of common stock related to the Convertible Notes for periods the Company reports net income. As of June 30, 2021, the average market price of its common stock exceeded this conversion price per share and as such, the common shares underlying convertible notes were included in the diluted calculation for the three and six months ended June 30, 2021 (see Note 7).

For the three and six months ended June 30, 2021, securities outstanding totaling approximately 1,200,000 and 1,042,000 shares, respectively, comprised of stock options and restricted stock units were excluded from the calculation of earnings per common share—diluted as they would be anti-dilutive. For the three and six months ended June 30, 2020, securities outstanding totaling approximately 1,153,000 and 1,260,000 shares, respectively, comprised of stock options, restricted stock units and performance share units were excluded from the calculation of loss per common share—diluted as they would be anti-dilutive.

Note 9. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill by operating and reportable segment are as follows (in thousands):

	Golf Equipment	Apparel, Gear and Other	Topgolf	Total
Balance at December 31, 2020	$ 27,025	$ 29,633	$ —	$ 56,658
Acquisitions	504,568	58,652	1,402,101	1,965,321
Impairments	—	—	—	—
Foreign currency translation	(71)	—	—	(71)
Balance at June 30, 2021	$ 531,522	$ 88,285	$ 1,402,101	$ 2,021,908

Goodwill at June 30, 2021 increased to $2,021,908,000 from $56,658,000 at December 31, 2020. This $1,965,250,000 increase was primarily due to the addition of $1,965,321,000 in goodwill in connection with the Topgolf merger in March 2021, of which the Company attributed $1,402,101,000 to the Topgolf business, and $504,568,000 and $58,652,000 to the golf equipment and apparel businesses, respectively (see Note 6). This increase was partially offset by changes in foreign currency rates period over period.

In accordance with ASC Topic 350, "Intangibles—Goodwill and Other," the Company's goodwill and non-amortizing intangible assets are subject to an annual impairment test or more frequently when impairment indicators are present. As of June 30, 2021 and December 31, 2020 the Company recognized accumulated impairment losses on goodwill of $148,375,000. There were no impairment losses recognized during the three or six months ended June 30, 2021.

The following sets forth the intangible assets by major asset class (dollars in thousands):

	Useful Life (Years)	June 30, 2021			
		Gross[(1)]	Accumulated Amortization	Translation Adjustment	Net Book Value
Indefinite-lived:					
Trade name, trademark, trade dress and other	NA	$ 1,441,003	$ —	$ 6,695	$ 1,434,308
Liquor licenses	NA	7,452	—	—	7,452
Amortizing:					
Patents	2-16	32,041	31,617	—	424
Customer and distributor relationships and other	1-10	61,377	23,278	1,021	37,078
Developed technology	10	79,994	2,496	123	77,375
Total intangible assets		$ 1,621,867	$ 57,391	$ 7,839	$ 1,556,637

	Useful Life (Years)	December 31, 2020		
		Gross	Accumulated Amortization	Net Book Value
Indefinite-lived:				
Trade name, trademark, trade dress and other	NA	$ 446,803	$ —	$ 446,803
Amortizing:				
Patents	2-16	31,581	31,581	—
Customer and distributor relationships and other	1-10	57,309	19,773	37,536
Total intangible assets		$ 535,693	$ 51,354	$ 484,339

(1) The gross balance of intangible assets as of June 30, 2021 includes additions of $1,001,600,000 and $84,528,000 in indefinite-lived and amortizing intangible assets, respectively, related to the Topgolf merger that was completed on March 8, 2021.

The Company recognized amortization expense related to intangible assets of $3,736,000 and $1,213,000 for the three months ended June 30, 2021 and 2020, respectively, and $6,037,000 and $2,393,000 for the six months ended June 30, 2021 and 2020, respectively, in selling, general and administrative expenses in the accompanying consolidated condensed statements of operations.

Amortization expense related to intangible assets at June 30, 2021 in each of the next five fiscal years and beyond is expected to be incurred as follows (in thousands):

Remainder of 2021	$ 10,522
2022	14,348
2023	12,675
2024	12,532
2025	12,454
Thereafter	52,346
	$ 114,877

Note 10. Investments

Investment in Topgolf International, Inc.

Prior to the completion of the merger with Topgolf, the Company owned a minority interest of approximately 14.3% in Topgolf, the owner and operator of Topgolf entertainment centers. On March 8, 2021, the Company completed its previously announced merger with Topgolf, in which the Company issued shares of its common stock in exchange for 100% of the outstanding equity of Topgolf (see Note 6). As a result of the merger, the Company's shares of Topgolf comprised of common stock and various classes of preferred stock were stepped up to their fair value and applied toward the total purchase consideration in the merger. The fair value adjustment resulted in a gain of $252,531,000, which the Company recognized in other income in the first quarter of 2021.

Immediately prior to the merger and at December 31, 2020, the Company's total investment in Topgolf was $111,442,000. The Company accounted for this investment at cost less impairments in accordance with ASC 2016-01. Prior to the merger, the Company did not record any impairments with respect to this investment.

Investment in Full Swing Golf Holdings, Inc.

In connection with the merger with Topgolf, the Company acquired a minority interest of 17.7% in Full Swing Golf Holdings, Inc. (“Full Swing”), owners of indoor golf simulation technology that delivers golf ball tracking data and measures ball flight indoors. The fair value of this investment as of the merger date was $27,740,000. The Company accounts for this investment at cost less impairments in accordance with ASC 2016-01. As of June 30, 2021, the Company believed its cost investment in Full Swing approximated its fair value. Subsequent to June 30, 2021, the Company sold a portion of its investment in Full Swing for cash proceeds of approximately $18,591,000. As a result of the transaction, the Company now owns a minority interest of 7.3% in Full Swing.

Note 11. Product Warranty

The Company has a stated two-year warranty policy for its golf clubs and certain Jack Wolfskin gear, as well as a limited lifetime warranty for its OGIO line of products. The Company’s policy is to accrue the estimated cost of satisfying future warranty claims at the time the sale is recorded. In estimating its future warranty obligations, the Company considers various relevant factors, including the Company’s stated warranty policies and practices, the historical frequency of claims, and the cost to replace or repair its products under warranty.

The Company’s estimates for calculating the warranty reserve are principally based on assumptions regarding the warranty costs of each product line over the expected warranty period. Where little or no claims experience may exist, the Company’s warranty obligation calculation is based upon long-term historical warranty rates of similar products until sufficient data is available. As actual model-specific rates become available, the Company’s estimates are modified to reflect the range of likely outcomes.

The following table provides a reconciliation of the activity related to the Company's reserve for warranty expense. The warranty reserve is included in other current liabilities in the accompanying consolidated condensed balance sheets as of June 30, 2021 and December 31, 2020. Amount in the table below are in thousands.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Beginning balance	$ 10,700	$ 9,791	$ 9,364	$ 9,636
Provision	3,477	1,562	5,933	3,370
Claims paid/costs incurred	(2,644)	(1,574)	(3,764)	(3,227)
Ending balance	$ 11,533	$ 9,779	$ 11,533	$ 9,779

Note 12. Selected Financial Statement Information

	June 30, 2021	December 31, 2020
	(In thousands)	
Inventories:		
Raw materials	$ 70,900	$ 69,932
Work-in-process	1,098	1,010
Finished goods	258,760	281,602
Food and beverage	4,588	—
	$ 335,346	$ 352,544
Property, plant and equipment, net:		
Land	$ 90,232	$ 7,308
Buildings and leasehold improvements	798,078	100,653
Machinery and equipment	196,819	137,026
Furniture, computer hardware and equipment	176,141	100,558
Internal-use software	77,566	42,082
Production molds	7,163	6,809
Construction-in-process	181,044	13,299
	1,527,043	407,735
Accumulated depreciation	(262,157)	(261,240)
	$ 1,264,886	$ 146,495
Accounts payable and accrued expenses:		
Accounts payable	$ 111,255	$ 66,282
Accrued expenses	207,149	136,277
Accrued inventory	108,173	73,650
	$ 426,577	$ 276,209
Accrued employee compensation and benefits:		
Accrued payroll and taxes	$ 68,173	$ 17,009
Accrued vacation and sick pay	22,355	12,887
Accrued commissions	4,899	1,041
	$ 95,427	$ 30,937

During the three months ended June 30, 2021 and 2020, the Company recorded depreciation expense of $39,534,000 and $8,147,000, respectively, and $57,505,000 and $15,964,000 for the six months ended June 30, 2021 and 2020, respectively, on the accompanying consolidated condensed statements of operations.

Note 13. Income Taxes

The Company calculates its interim income tax provision in accordance with ASC Topic 270, "Interim Reporting," and ASC Topic 740, "Accounting for Income Taxes." Historically, the Company calculated the provision for income taxes during the interim reporting periods by applying an estimate of the annual effective tax rate for the full fiscal year to "ordinary" income or loss (pretax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. The Company determined that since small changes in estimated “ordinary” income would result in significant changes in the estimated annual effective tax rate, the historical method would not provide a reliable estimate for the three and six months ended June 30, 2021. Therefore, a discrete effective tax rate method was used to calculate taxes for the three and six months ended June 30, 2021.

In March 2021, the Company acquired Topgolf through a non-taxable stock acquisition in a share exchange. The purchase price of Topgolf at acquisition was approximately $3,014,174,000. The Company recorded a deferred tax liability of approximately $293,000,000 related to the acquired intangibles, offset by approximately $154,000,000 of other acquired deferred tax assets, after consideration of acquired valuation allowances.

In January 2019, the Company acquired Jack Wolfskin for approximately $521,201,000 (including cash acquired of $58,096,000). The Company recorded a deferred tax liability of $88,392,000 related to the intangibles upon acquisition in addition to $11,384,000 deferred tax assets acquired. In the second quarter of 2020, due to a decline in projected revenues caused by the COVID-19 pandemic, the Company recognized an impairment charge of $174,269,000 to write down the goodwill and trade name associated with Jack Wolfskin to its fair value (see Note 9). The impaired goodwill was comprised of book basis over tax basis with no corresponding deferred tax liability. The brand value impairment resulted in the reduction of approximately $7,900,000 of the deferred tax liability previously recorded as part of acquisition accounting.

The realization of deferred tax assets, including loss and credit carryforwards, is subject to the Company generating sufficient taxable income during the periods in which the deferred tax assets become realizable. As a result of the Topgolf merger and the fact that Topgolf’s losses exceed Callaway’s income in recent years, the Company recorded a valuation allowance in its income tax provision of approximately $38,927,000 against certain of its net operating losses and tax credit carryforwards during the three months ended March 31, 2021. In connection with the purchase accounting related to the merger with Topgolf, the Company also recorded a valuation allowance in goodwill of approximately $80,566,000 against certain Topgolf deferred tax assets acquired in the merger. For the three months ended June 30, 2021, the Company released acquired Topgolf valuation allowances of approximately $32,743,000 due to significant earnings in the period and as a consequence of using the discrete effective tax rate method described above. The Company will continue to assess this amount through the measurement period. With respect to Jack Wolfskin and previously existing non-U.S. entities, there continues to be sufficient positive evidence to conclude that realization of its deferred tax assets is more likely than not under applicable accounting rules, and therefore no significant valuation allowances have been established.

The Company recorded an income tax benefit of $15,853,000 and a tax provision of $31,890,000 for the three and six months ended June 30, 2021, respectively. As a percentage of pre-tax income, the Company's effective tax rate was (20.9)% and 8.1% for the three and six months ended June 30, 2021, respectively. In the three months ended June 30, 2021 the primary difference between the statutory rate and the effective rate relates to the tax effect of the valuation allowance release described above. In the six months ended June 30, 2021 the primary difference between the statutory rate and the effective rate relates to excluding the book gain on pre-merger Topgolf shares for tax purposes offset by the valuation allowances on the Company’s deferred tax assets discussed above.

At June 30, 2021, the gross liability for income taxes associated with uncertain tax positions was $27,028,000. Of this amount, $5,267,000 would benefit the Company’s consolidated condensed financial statements and effective income tax rate if favorably settled. The unrecognized tax liabilities are expected to decrease by approximately $470,000 during the next 12 months. The gross liability for uncertain tax positions decreased by $1,392,000 for the three months ended June 30, 2021. The decrease was primarily due to an increase in effectively settled tax positions taken in the current quarter. The gross liability for uncertain tax positions decreased by $1,274,000 for the six months ended June 30, 2021. The decrease was primarily due to an increase in effectively settled tax positions taken in the current year.

The Company recognizes interest and penalties related to income tax matters in income tax expense. For the three months ended June 30, 2021 and 2020, the Company's provision for income taxes includes a benefit of $49,000 and an expense of $25,000, respectively, related to the recognition of interest and/or penalties. For the six months ended June 30, 2021 and 2020, the Company's provision for income taxes includes a benefit of $282,000 and an expense of $54,000, respectively, related to the recognition of interest and/or penalties. As of June 30, 2021 and December 31, 2020, the gross amount of accrued interest and penalties included in income taxes payable in the accompanying consolidated condensed balance sheets was $950,000 and $1,232,000, respectively.

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

Tax Jurisdiction	Years No Longer Subject to Audit
U.S. federal	2010 and prior
California (U.S.)	2008 and prior
Germany	2013 and prior
Japan	2015 and prior
South Korea	2015 and prior
United Kingdom	2016 and prior

Pursuant to Section 382 of the Internal Revenue Code, use of the Company's net operating losses and credit carry-forwards may be limited significantly if the Company were to experience a cumulative change in ownership of the Company's stock by "5-percent shareholders" that exceeds 50% over a rolling three-year period. The Company believes a cumulative change in ownership occurred as a result of the merger with Topgolf, for the Company and Topgolf. The resulting limitations are not expected to have an adverse impact on future combined earnings of the Company. The limitation on losses and credits could impact future cash flows but those impacts are not expected to be significant.

Note 14. Commitments & Contingencies

Legal Matters

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

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

Historically, the claims, proceedings, and investigations brought against the Company, individually and in the aggregate, have not had a material adverse effect on the consolidated results of operations, cash flows or financial position of the Company. The Company believes that it has valid legal defenses to the matters currently pending against the Company. These matters are inherently unpredictable and the resolutions of these matters are subject to many uncertainties and the outcomes are not predictable with assurance. Consequently, management is unable to estimate the ultimate aggregate amount of monetary loss, amounts covered by insurance, or the financial impact that will result from such matters. In addition, the Company cannot assure that it will be able to successfully defend itself in those matters, or that any amounts accrued are sufficient.

Unconditional Purchase Obligations

During the normal course of its business, the Company enters into agreements to purchase goods and services, including purchase commitments for production materials, as well as endorsement agreements with professional athletes and other endorsers, employment and consulting agreements, and intellectual property licensing agreements pursuant to which the Company is required to pay royalty fees. It is not possible to determine the amounts the Company will ultimately be required to pay under these agreements as they are subject to many variables including performance-based bonuses, severance arrangements, the Company's sales levels, and reductions in payment obligations if designated minimum performance criteria are not achieved. The amounts listed approximate minimum purchase obligations, base compensation, and guaranteed minimum royalty payments the Company is obligated to pay under these agreements. The actual amounts paid under some of these agreements may be higher or lower than the amounts included. In the aggregate, the actual amount paid under these obligations is likely to be higher than the amounts listed as a result of the variable nature of these obligations. The Company has entered into many of these contractual agreements with terms ranging from one to four years.

The minimum obligation that the Company is required to pay as of June 30, 2021 under these agreements is $96,214,000 over the next five years and thereafter as follows (in thousands):

Remainder of 2021	$	40,895
2022		33,472
2023		20,969
2024		753
2025		125
	$	96,214

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

Other Contingent Contractual Obligations

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

The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum amount of future payments the Company could be obligated to make. Historically, costs incurred to settle claims related to indemnities have not been material to the Company's financial position, results of operations or cash flows. In addition, the Company believes the likelihood is remote that payments under the commitments and guarantees described above will have a material effect on the Company's consolidated financial statements. The fair value of indemnities, commitments and guarantees that the Company issued during and as of June 30, 2021 was not material to the Company's financial position, results of operations or cash flows.

Employment Contracts

In addition, the Company has made contractual commitments to each of its officers and certain other employees providing for severance payments, including salary continuation, upon the termination of employment by the Company without substantial cause or by the officer for good reason or non-renewal. In addition, in order to assure that the officers would continue to provide independent leadership consistent with the Company's best interest, the contracts also generally provide for certain protections in the event of a change in control of the Company. These protections include the payment of certain severance benefits, such as salary continuation, upon the termination of employment following a change in control.

Note 15. Share-Based Employee Compensation

As of June 30, 2021, the Company had three shareholder approved stock plans under which shares were available for equity-based awards: the Callaway Golf Company Amended and Restated 2004 Incentive Plan, the 2013 Non-Employee

Directors Stock Incentive Plan and the 2021 Employment Inducement Plan. The Company grants stock options, restricted stock units, performance share units, phantom stock units, stock appreciation rights and other awards under these plans.

The Company accounts for its share-based compensation arrangements in accordance with ASC Topic 718, which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values, and ASU No. 2014-12 for stock awards that are subject to performance measures. ASC Topic 718 further requires a reduction in share-based compensation expense by an estimated forfeiture rate. The forfeiture rate used by the Company is based on historical forfeiture trends. If actual forfeiture rates are not consistent with the Company’s estimates, the Company may be required to increase or decrease compensation expenses in future periods.

In connection with the merger with Topgolf, on March 8, 2021, the Company granted restricted stock units and performance share units to certain employees of the Company and Topgolf under the 2021 Employment Inducement Plan that was adopted by the Company as of the merger date. This inducement plan has substantially the same terms as the Company’s other stock plans.

Replacement Awards

In connection with the merger with Topgolf, the Company converted certain stock options previously held by former equity holders of Topgolf into options to purchase a number of shares of Callaway common stock, and certain outstanding restricted stock awards of Topgolf, to the extent unvested, into shares of Callaway common stock (together, the "replacement awards"). On March 8, 2021, the Company converted approximately 3,168,000 shares underlying stock options with a fair value of $5,343,000, and approximately 188,000 restricted stock awards with a fair value of $4,794,000. The Company's stock price on the conversion date was $29.52. The Company used the Black-Scholes option-pricing model to determine the fair value of the stock options. The average fair value assumptions used in the Black-Scholes model on March 8, 2021 were a risk-free interest rate of 0.6%, an expected term of 3.7 years and an expected stock price volatility of 55.1%.

Compensation expense will be recognized over the remaining vesting terms of each award ranging between 1 to 3 years. During the three and six months ended June 30, 2021, the Company recognized $1,572,000 and $1,978,000, respectively, in compensation expense related to these awards, net of estimated forfeitures. At June 30, 2021, unamortized compensation expense related to stock options and restricted stock awards was $4,061,000 and $3,792,000, respectively, which will recognized over a weighted average period of 1.5 years and 1.7 years, respectively.

Restricted Stock Units

Restricted stock units are valued at the Company’s closing stock price on the date of grant, and generally vest over a one- to five-year period. Compensation expense for restricted stock units is recognized on a straight-line basis over the vesting period and is reduced by an estimate for forfeitures.

During the three months ended June 30, 2021 and 2020, the Company granted 122,000 and 134,000 shares underlying restricted stock units, respectively, at a weighted average grant-date fair value of $29.66 and $14.15 per share, respectively. During the six months ended June 30, 2021 and 2020, the Company granted 1,109,000 shares underlying restricted stock units, including inducement awards of 774,000, and 402,000 shares underlying restricted stock units, respectively, at a weighted average grant-date fair value of $29.61 and $17.83 per share, respectively.

Total compensation expense, net of estimated forfeitures, recognized for restricted stock units was $3,775,000 and $1,362,000 for the three months ended June 30, 2021 and 2020, respectively, and $5,950,000 and $2,977,000, for the six months ended June 30, 2021 and 2020, respectively.

At June 30, 2021, the Company had $45,873,000 of total unamortized compensation expense related to non-vested restricted stock units. That cost is expected to be recognized over a weighted-average period of 2.3 years.

Performance Based Awards

Performance based awards are stock-based awards in which the number of shares ultimately received depends on the Company's performance against specified metrics, including earnings before interest, taxes, depreciation, amortization and stock compensation, earnings per share, adjusted pre-tax income and total shareholder return. The performance period ranges over one- to five years from the date of grant. Performance share units are initially valued at the Company's closing stock price on the date of grant. Stock compensation expense, net of estimated forfeitures, is recognized on a straight-line basis over the vesting period. The expense recognized over the vesting period is adjusted up or down based on the anticipated performance level during the performance period. If the performance metrics are not probable of achievement during the performance period, compensation expense would be reversed. The awards are forfeited if the threshold performance metrics are not achieved as of the end of the performance period. The performance share units cliff-vest in full over a period of three to five years from the date of grant.

During the three months ended June 30, 2021, the Company granted 95,000 shares underlying performance share units at a weighted average grant-date fair value of $27.11. During the six months ended June 30, 2021 and 2020, the Company granted 1,440,000 shares underlying performance share units, including inducement awards of 1,149,000, and 125,000, respectively, at a weighted average grant-date fair value of $29.42 and $19.66, respectively. There were no performance share units granted during three months ended June 30, 2020.

During the three months ended June 30, 2021 and 2020, the Company recognized total compensation expense, for performance-based awards of $5,692,000 and $1,572,000, respectively, net of estimated forfeitures, and $7,720,000 and $1,817,000 for the six months ended June 30, 2021 and 2020, respectively.

At June 30, 2021, unamortized compensation expense related to these awards was $70,749,000, which is expected to be recognized over a weighted-average period of 2.4 years.

Share-Based Compensation Expense

The table below summarizes the amounts recognized in the financial statements for the three and six months ended June 30, 2021 and 2020 for share-based compensation, including expense for restricted stock units, performance share units, restricted stock awards and stock options (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Cost of products	$ 321	$ 239	$ 547	$ 395
Selling, general and administrative expenses	10,471	2,526	14,681	4,114
Research and development expenses	244	168	420	285
Total cost of share-based compensation included in income, before income tax	11,036	2,933	15,648	4,794
Income tax benefit	2,649	704	3,756	1,151
Total cost of employee share-based compensation, after tax	$ 8,387	$ 2,229	$ 11,892	$ 3,643

Note 16. Fair Value of Financial Instruments

Certain of the Company's financial assets and liabilities are measured at fair value on a recurring and nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or the price paid to transfer a liability (the exit price) in the principal and most advantageous market for the asset or liability in an orderly transaction between market participants. Assets and liabilities carried at fair value are classified using the following three-tier hierarchy:

Level 1: Quoted market prices in active markets for identical assets or liabilities;

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

Level 3: Fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following table summarizes the valuation of the Company's foreign currency forward contracts (see Note 17) that are measured at fair value on a recurring basis by the above pricing levels at June 30, 2021 and December 31, 2020 (in thousands):

	Fair Value	Level 1	Level 2	Level 3
June 30, 2021				
Foreign currency forward contracts—asset position(1)	$ 6,552	$ —	$ 6,552	$ —
Foreign currency forward contracts—liability position(1)	(378)	—	(378)	—
Interest rate hedge agreements—liability position(2)	(13,303)	—	(13,303)	—
	$ (7,129)	$ —	$ (7,129)	$ —
December 31, 2020				
Foreign currency forward contracts—asset position(1)	$ 90	$ —	$ 90	$ —
Foreign currency forward contracts—liability position(1)	(1,553)	—	(1,553)	—
Interest rate hedge agreements—liability position(2)	(17,922)	—	(17,922)	—
	$ (19,385)	$ —	$ (19,385)	$ —

(1) The fair value of the Company's foreign currency forward contracts is based on observable inputs that are corroborated by market data. Observable inputs include broker quotes, daily market foreign currency rates and forward pricing curves. Remeasurement gains and losses on foreign currency forward contracts designated as cash flow hedges are recorded in accumulated other comprehensive income (loss) until recognized in earnings during the period that the hedged transactions take place (see Note 17).

(2) The fair value of interest rate hedge contracts is based on observable inputs that are corroborated by market data. Observable inputs include daily market foreign currency rates and interest rate curves. Remeasurement gains and losses are recorded in accumulated other comprehensive income (loss) until recognized in earnings as interest payments are made or received on the Company's variable-rate debt. Remeasurement gains and losses on foreign currency forward contracts that are not-designated as cash flow hedges are recorded in other income (expense) (see Note 17).

Disclosures about the Fair Value of Financial Instruments

The carrying values of cash and cash equivalents at June 30, 2021 and December 31, 2020 are categorized within Level 1 of the fair value hierarchy. The table below illustrates information about fair value relating to the Company's financial assets and liabilities that are recognized in the accompanying consolidated condensed balance sheets as of June 30, 2021 and December 31, 2020 (in thousands).

	June 30, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Term Loan Facility(1)	$ 439,200	$ 441,515	$ 441,600	$ 443,243
Japan Term Loan Facility(2)	$ 15,300	$ 15,356	$ 18,390	$ 16,083
Convertible Notes(3)	$ 258,750	$ 526,802	$ 258,750	$ 414,191
U.S. Asset-Based Revolving Credit Facility(4)	$ 21,438	$ 21,438	$ 22,130	$ 22,130
Equipment Notes(5)	$ 27,655	$ 29,380	$ 31,822	$ 29,385
Topgolf Revolving Credit Facility(6)	$ 42,873	$ 42,873	$ —	$ —
Mortgage Loans(7)	$ 46,634	$ 52,739	$ —	$ —
Topgolf Term Loan(8)	$ 335,088	$ 331,835	$ —	$ —

(1) In January 2019, the Company entered into a Term Loan Facility. The fair value of this debt is based on quoted prices for similar instruments in active markets combined with quantitative pricing models, and is therefore categorized within Level 2 of the fair value hierarchy. See Note 7 for further information.

(2) In August 2020, the Company entered into the Japan Term Loan Facility. The fair value is categorized within Level 2 of the fair value hierarchy. The Company used discounted cash flows and market-based expectations for interest rates, credit risk, and the contractual terms of the debt to derive the fair value. See Note 7 for further information.

(3) In May 2020, the Company issued $258,750,000 of 2.75% Convertible Notes due in 2026. The fair value of this debt is based on quoted prices in secondary markets combined with quantitative pricing models, and is therefore categorized within Level 2 of the fair value hierarchy. For further discussion, see Note 7.

(4) The carrying value of the amounts outstanding under the Company's ABL Facility approximates the fair value due to the short-term nature of these obligations. The fair value of this debt is categorized within Level 2 of the fair value hierarchy based on the observable market borrowing rates. See Note 7 for information on the Company's credit facilities, including certain risks and uncertainties related thereto.

(5) The Company entered into equipment notes in 2017, 2019 and 2020 that are secured by certain equipment at the Company's golf ball manufacturing facility. The fair value of this debt is categorized within Level 2 of the fair value hierarchy. The Company used discounted cash flows and market-based expectations for interest rates, credit risk, and the contractual terms of the debt to derive the fair value. See Note 7 for further information.

(6) The carrying amount of the Topgolf Revolving Credit Facility approximates its fair value because the applicable interest rate is adjusted regularly based on current market conditions. See Note 7 for further information.

(7) The fair value of the mortgage loans is calculated based on the future payments under the mortgage agreement discounted at the incremental borrowing rate. See Note 7 for further information.

(8) The fair value of the Topgolf Term Loan is based on quoted market rate from the lender. See Note 7 for further information.

Nonrecurring Fair Value Measurements

The Company measures certain assets at fair value on a nonrecurring basis at least annually or more frequently if certain indicators are present. These assets include long-lived assets, goodwill, non-amortizing intangible assets and investments that are written down to fair value when they are held for sale or determined to be impaired. During the second quarter of 2020, the Company considered the macroeconomic conditions related to the COVID-19 pandemic and its potential impact to sales and operating income for the remainder of fiscal 2020, and determined that there were indicators of impairment and proceeded with a quantitative assessment of goodwill for all reporting units. As a result of the second quarter assessment, the Company determined that the fair value of one of its reporting units was less than its carrying value, and therefore recognized a goodwill impairment loss of $148,375,000 in the second quarter of 2020. In addition, the Company recognized an impairment loss of $25,894,000 on one of its trade names (see Note 9). There were no impairment losses recorded during the three and six months ended June 30, 2021.

Note 17. Derivatives and Hedging

In the normal course of business, the Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to transactions of its international subsidiaries as well as fluctuations in foreign currency exchange rates and changes in interest rates relating to its long-term debt. The Company uses designated cash flow hedges and non-designated hedges in the form of foreign currency forward contracts as part of its strategy to manage the level of exposure to the risk of fluctuations in foreign currency exchange rates and to mitigate the impact of foreign currency translation on transactions that are denominated primarily in Japanese Yen, British Pounds, Euros, Canadian Dollars, Australian Dollars and Korean Won. The Company also uses cross-currency debt swap contracts and interest rate hedge contracts to mitigate the impact of variable rates on its long-term debt as well as changes in foreign currencies.

The Company accounts for its foreign currency forward contracts, cross-currency debt swap contracts and interest rate hedge contracts in accordance with ASC Topic 815. ASC Topic 815 requires the recognition of all derivative instruments as either assets or liabilities on the balance sheet, the measurement of those instruments at fair value and the recognition of changes in the fair value of derivatives in earnings in the period of change, unless the derivative qualifies as a designated cash flow hedge that offsets certain exposures. Certain criteria must be satisfied in order for derivative financial instruments to be classified and accounted for as a cash flow hedge. Gains and losses from the remeasurement of qualifying cash flow hedges are recorded as a component of accumulated other comprehensive income (loss) and released into earnings as a component of cost of products or net revenue, other income (expense) and interest expense during the period in which the hedged transaction takes place. Remeasurement gains or losses of derivatives that are not elected for hedge accounting treatment are recorded in earnings immediately as a component of other income (expense).

Foreign currency forward contracts, cross-currency debt swap contracts and interest rate hedge contracts are used only to meet the Company’s objectives of minimizing variability in the Company’s operating results arising from foreign exchange rate movements and changes in interest rates. The Company does not enter into foreign currency forward contracts, cross-currency debt swap contracts and interest rate hedge contracts for speculative purposes. The Company utilizes counterparties for its derivative instruments that it believes are credit-worthy at the time the transactions are entered into and the Company closely monitors the credit ratings of these counterparties.

The following table summarizes the fair value of the Company's derivative instruments as well as the location of the asset and/or liability on the consolidated condensed balance sheets at June 30, 2021 and December 31, 2020 (in thousands):

		Fair Value of Asset Derivatives	
	Balance Sheet Location	**June 30, 2021**	**December 31, 2020**
Derivatives designated as cash flow hedging instruments:			
Foreign currency forward contracts	Other current assets	$ 1,874	$ 37
Derivatives not designated as hedging instruments:			
Foreign currency forward contracts	Other current assets	4,678	53
Total asset position		$ 6,552	$ 90

		Fair Value of Liability Derivatives	
	Balance Sheet Location	**June 30, 2021**	**December 31, 2020**
Derivatives designated as cash flow hedging instruments:			
Foreign currency forward contracts	Accrued AP and expenses	$ 116	$ 38
Interest rate hedge contracts	Accrued AP and expenses	4,752	4,780
Interest rate hedge contracts	Other long-term liabilities	8,551	13,142
		13,419	17,960
Derivatives not designated as hedging instruments:			
Foreign currency forward contracts	Accrued AP and expenses	262	1,515
Total liability position		$ 13,681	$ 19,475

The Company's derivative instruments are subject to a master netting agreement with each respective counterparty bank and are therefore net settled at their maturity date. Although the Company has the legal right of offset under the master netting agreements, the Company has elected not to present these contracts on a net settlement amount basis, and therefore present these contracts on a gross basis on the accompanying consolidated condensed balance sheets at June 30, 2021 and December 31, 2020.

Cash Flow Hedging Instruments

Foreign Currency Forward Contracts

The Company uses foreign currency derivatives designated as qualifying cash flow hedging instruments, including foreign currency forward contracts to help mitigate the Company's foreign currency exposure on intercompany sales of inventory to its foreign subsidiaries. These contracts generally mature within 12 to 15 months from their inception. At June 30, 2021 and December 31, 2020, the notional amounts of the Company's foreign currency forward contracts designated as cash flow hedge instruments were approximately $34,075,000, and $756,000, respectively.

As of June 30, 2021, the Company recorded a net gain of $2,065,000 in accumulated other comprehensive loss related to foreign currency forward contracts. Of this amount, net gains of $192,000 for the three months ended June 30, 2021 and net losses of $78,000 for the six months ended June 30, 2021, were removed from accumulated other comprehensive loss and recognized in cost of products for the underlying sales that were recognized, and net gains of $22,000 and $44,000 for the three and six months ended June 30, 2021, respectively, related to the amortization of forward points were removed from accumulated other comprehensive loss and recognized in cost of products. There were no ineffective hedge gains or losses recognized during the three and six months ended June 30, 2021. Based on the current valuation, the Company expects to reclassify net gains of $1,829,000 from accumulated other comprehensive loss into net earnings during the next 12 months.

The Company recognized net gains of $407,000 and $408,000 in cost of products in the three and six months ended June 30, 2020, respectively.

Interest Rate Hedge Contract and Cross-Currency Debt Swap

In order to mitigate the risk of changes in interest rates associated with the Company's variable-rate Term Loan Facility and EUR denominated intercompany loan, the Company used a cross-currency debt swap and interest rate hedge, both designated as cash flow hedges (see Note 7) by converting a portion of the USD denominated Term Loan Facility, which has a higher variable interest rate, to a EUR denominated synthetic note at a lower fixed rate. During the first quarter of 2020, the Company unwound the cross-currency swap, and as of June 30, 2020 the Company determined that the forecasted transaction in connection with the underlying EUR denominated intercompany loan was no longer probable of occurring. As such, the Company discontinued the hedge and released net gains of $11,046,000 from accumulated other comprehensive income to other income (expense), net during the second quarter of 2020. The Company maintained the interest rate hedge related to the USD denominated Term Loan Facility in order to continue mitigating the risk of changes in interest rates. Over the life of the facility, the Company will receive variable interest payments from the counterparty lenders in exchange for the Company making fixed rate payments, without exchange of the underlying notional amount. The notional amount outstanding under the interest rate hedge contract was $195,348,000 and $196,350,000 as of June 30, 2021 and December 31, 2020, respectively.

During the three and six months ended June 30, 2021, the Company recorded net gains of $462,000 and $2,228,000 related to the remeasurement of the interest rate hedge contract in accumulated other comprehensive loss. Of these amounts, net losses of $1,206,000 and $2,391,000 were relieved from accumulated other comprehensive loss and recognized in interest expense during the three and six months ended June 30, 2021, respectively. Based on the current valuation, the Company expects to reclassify a net loss of $4,757,000 related to the interest rate hedge contract from accumulated other comprehensive loss into earnings during the next 12 months. The Company recognized net losses of $1,017,000 and $1,451,000 in interest expense during the three and six months ended June 30, 2020, respectively.

In connection with the cross-currency swap contract, during the six months ended June 30, 2020, the Company recorded a remeasurement net gain of $15,081,000 in accumulated other comprehensive loss. There were no remeasurement gains or losses recorded during the three months ended June 30, 2020. During the three and six months ended June 30, 2020, net gains of $11,463,000 and $18,510,000, respectively, were relieved from accumulated other comprehensive loss. The recognition of these net gains into earnings is summarized as follows:

- Net gains of $11,046,000 related to the discontinuation of the cross-currency swap contract were recognized in other income (expense) in the three and six months ended June 30, 2020.
- Net gains related to foreign currency of $5,735,000 were recognized in other income (expense) in the six months ended June 30, 2020. There were no net foreign currency gains or losses recognized in the six months ended June 30, 2021.
- Net gains of $417,000 and $1,730,000 were recognized in interest expense during the three and six months ended June 30, 2020, respectively. There were no net gains or losses recognized in interest income during the three and six months ended June 30, 2021.

The following tables summarize the net effect of all cash flow hedges on the consolidated condensed financial statements for the three and six months ended June 30, 2021 and 2020 (in thousands):

	Gain/(Loss) Recognized in Other Comprehensive Income (Effective Portion)			
	Three Months Ended June 30,		Six Months Ended June 30,	
Derivatives designated as cash flow hedging instruments	2021	2020	2021	2020
Foreign currency forward contracts	$ (126)	$ (436)	$ 2,065	$ 1,974
Cross-currency debt swap agreements	—	—	—	15,081
Interest rate hedge agreements	(462)	(1,928)	2,228	(13,161)
	$ (588)	$ (2,364)	$ 4,293	$ 3,894

	Gain/(Loss) Reclassified from Other Comprehensive Income into Earnings (Effective Portion)			
	Three Months Ended June 30,		Six Months Ended June 30,	
Derivatives designated as cash flow hedging instruments	2021	2020	2021	2020
Foreign currency forward contracts	$ 215	$ 638	$ (33)	$ 872
Cross-currency debt swap agreements	—	11,463	—	18,510
Interest rate hedge agreements	(1,206)	(1,017)	(2,391)	(1,447)
	$ (991)	$ 11,084	$ (2,424)	$ 17,935

Foreign Currency Forward Contracts Not Designated as Hedging Instruments

The Company uses foreign currency forward contracts that are not designated as qualifying cash flow hedging instruments to mitigate certain balance sheet exposures (payables and receivables denominated in foreign currencies), as well as gains and losses resulting from the translation of the operating results of the Company's international subsidiaries into U.S. dollars for financial reporting purposes. These contracts generally mature within 12 months from their inception. At June 30, 2021 and December 31, 2020, the notional amounts of the Company's foreign currency forward contracts used to mitigate the exposures discussed above were approximately $177,509,000 and $81,627,000, respectively. The Company estimates the fair values of foreign currency forward contracts based on pricing models using current market rates, and records all derivatives on the balance sheet at fair value with changes in fair value recorded in the consolidated condensed statements of operations. The foreign currency contracts are classified under Level 2 of the fair value hierarchy (see Note 16).

The following table summarizes the location of net gains and losses in the consolidated condensed statements of operations that were recognized during the three and six months ended June 30, 2021 and 2020, respectively, in addition to the derivative contract type (in thousands):

		Amount of Net Gain (Loss) Recognized in Income on Derivative Instruments			
		Three Months Ended June 30,		Six Months Ended June 30,	
Derivatives not designated as hedging instruments	Location of Net Gain (Loss) Recognized in Income on Derivative Instruments	2021	2020	2021	2020
Foreign currency forward contracts	Other expense, net	$ (1,610)	$ (595)	$ 9,030	$ 5,261

In addition, for the three months ended June 30, 2021 and 2020, the Company recognized a net foreign currency transaction loss of $1,604,000 and a gain of $2,906,000, respectively, and net foreign currency losses of $3,067,000 and $2,241,000, respectively for the six months ended June 30, 2021 and 2020, related to transactions with its foreign subsidiaries.

Note 18. Accumulated Other Comprehensive Loss

The following table details the amounts reclassified from accumulated other comprehensive loss to cost of products, as well as changes in foreign currency translation for the three and six months ended June 30, 2021. Amounts are in thousands.

	Derivative Instruments	Foreign Currency Translation	Total
Accumulated other comprehensive loss, March 31, 2021, after tax	$ (8,674)	$ (8,772)	$ (17,446)
Change in derivative instruments	(588)	—	(588)
Net gains reclassified to cost of goods sold	(215)	—	(215)
Net losses reclassified to interest expense	1,206	—	1,206
Income tax provision on derivative instruments	(617)	—	(617)
Foreign currency translation adjustments	—	5,966	5,966
Accumulated other comprehensive loss, June 30, 2021, after tax	$ (8,888)	$ (2,806)	$ (11,694)

	Derivative Instruments	Foreign Currency Translation	Total
Accumulated other comprehensive loss, December 31, 2020, after tax	$ (14,017)	$ 7,471	$ (6,546)
Change in derivative instruments	4,293	—	4,293
Net gains reclassified to cost of products	33	—	33
Net losses reclassified to interest expense	2,391	—	2,391
Income tax provision on derivative instruments	(1,588)	—	(1,588)
Foreign currency translation adjustments	—	(10,277)	(10,277)
Accumulated other comprehensive loss, June 30, 2021, after tax	$ (8,888)	$ (2,806)	$ (11,694)

Note 19. Segment Information

On March 8, 2021 the Company completed its merger with Topgolf. Topgolf is primarily a services-based business that provides hospitality offerings and golf entertainment experiences, which is uniquely different compared to the Company's Golf Equipment and Apparel, Gear and Other businesses, which produce, distribute and sell goods through various sales channels. Accordingly, based on the Company's re-assessment of its operating segments, the Company added a third operating segment for its Topgolf business. Therefore, as of June 30, 2021, the Company had three reportable operating segments: Golf Equipment, Apparel, Gear and Other and Topgolf.

The Golf Equipment operating segment is comprised of product revenues and expenses that encompass golf club and golf ball products, including Callaway Golf-branded woods, hybrids, irons, wedges, Odyssey putters, including Toulon Design putters by Odyssey, packaged sets, Callaway Golf and Strata branded golf balls and sales of pre-owned golf clubs.

The Apparel, Gear and Other operating segment is comprised of product revenues and expenses for the Jack Wolfskin outdoor apparel, gear and accessories business, the TravisMathew golf and lifestyle apparel and accessories business, the Callaway soft goods business and the OGIO business, which consists of golf apparel and accessories (including golf bags and gloves), storage gear for sport and personal use. This segment also includes royalties from licensing of the Company’s trademarks and service marks for various soft goods products.

The Topgolf operating segment is primarily comprised of service revenues and expenses for its Company-operated Topgolf venues equipped with technology-enabled hitting bays, multiple bars, dining areas and event spaces, as well as Toptracer ball-flight tracking technology used by independent driving ranges and broadcast television, and the Company's WGT digital golf game.

There are no significant intersegment transactions during the three and six months ended June 30, 2021 or 2020.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net revenues:				
Golf Equipment	$ 401,259	$ 209,943	$ 778,141	$ 501,604
Apparel, Gear and Other	186,929	87,053	369,031	237,668
Topgolf[(1)]	325,453	—	418,090	—
Total net revenues	$ 913,641	$ 296,996	$ 1,565,262	$ 739,272
Income before income taxes:				
Golf Equipment	$ 98,089	$ 29,181	$ 183,010	$ 87,801
Apparel, Gear and Other	15,668	(11,711)	36,158	(15,510)
Topgolf[(1)]	24,204	—	28,158	—
Total segment operating income	137,961	17,470	247,326	72,291
Reconciling items[(2)]	(62,070)	(193,085)	148,769	(209,861)
Total income before income taxes	$ 75,891	$ (175,615)	$ 396,095	$ (137,570)
Additions to long-lived assets:[(3)]				
Golf Equipment	$ 9,359	$ 2,778	$ 15,784	$ 19,740
Apparel, Gear and Other	7,507	3,142	12,574	13,266
Topgolf	114,009	—	140,127	—
Total additions to long-lived assets	$ 130,875	$ 5,920	$ 168,485	$ 33,006

(1) On March 8, 2021, the Company completed the merger with Topgolf and has included the results of operations of Topgolf in its consolidated condensed statements of operations from that date forward.

(2) Reconciling items represent the deduction of corporate general and administration expenses and other income (expenses), which are not utilized by management in determining segment profitability. Reconciling items for the three and six months ended June 30, 2021 also include (i) transaction, transition and other non-recurring expenses in connection with the merger with Topgolf of $2,503,000 and $18,731,000, respectively, (ii) amortization and depreciation expense of $6,184,000 and $8,431,000, respectively, on the acquired intangible assets and fair value step-up of leases and property, plant and equipment (see Note 6), and (iii) $771,000 and $1,480,000, respectively, of costs related to the implementation of new IT systems for Jack Wolfskin. The six months ended June 30, 2021 also includes a gain of $252,531,000 related to the fair value step-up on the Company's pre-acquisition investment in Topgolf (see Note 10).

Reconciling items for the three and six months ended June 30, 2020 included an impairment charge of $174,269,000 related to Jack Wolfskin (see Note 9), in addition to severance related to the Company's cost reduction initiatives in response to the COVID-19 pandemic, non-recurring costs associated with the Company's transition to its new North America Distribution Center and costs related to the integration of Jack Wolfskin. These increases were partially offset by the recognition of a net gain of $11,046,000 related to a cash flow hedge that was discontinued during the second quarter of 2020.

(3) Additions to long-lived assets are comprised of purchases of property, plant and equipment.

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

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

Discussion of Non-GAAP Measures

In addition to the financial results contained in this report, which have been prepared and presented in accordance with the accounting principles generally accepted in the United States ("GAAP"), the Company has also included supplemental information concerning the Company's financial results on a non-GAAP basis. This non-GAAP information includes certain of the Company's financial results on a constant currency basis. This constant currency information estimates what the Company's financial results would have been without changes in foreign currency exchange rates. This information is calculated by taking the current period local currency results and translating them into U.S. dollars based upon the foreign currency exchange rates for the applicable comparable prior period. In addition, this non-GAAP information includes certain of the Company's financial results without certain non-cash charges recognized in the three and six months ended June 30, 2021, including a gain to step-up the Company's former investment in Topgolf to its fair value, amortization expense of intangible assets associated with the Jack Wolfskin, OGIO, TravisMathew acquisitions and more recently the merger with Topgolf, the discount amortization of the Convertible Notes issued in May 2020, a valuation allowance on certain deferred tax assets, in addition to other non-recurring expenses. For the three and six months ended June 30, 2020, non-GAAP financial results exclude certain non-cash charges, including amortization expense of intangible assets associated with the Jack Wolfskin, OGIO and TravisMathew acquisitions, in addition to non-recurring costs associated with the Company's transition to the new North America Distribution Center, in addition to other integration costs associated with Jack Wolfskin.

The Company has included in this report information to reconcile this non-GAAP information to the most directly comparable GAAP information. The non-GAAP information presented in this report should not be considered in isolation or as a substitute for any measure derived in accordance with GAAP. The non-GAAP information may also be inconsistent with the manner in which similar measures are derived or used by other companies. Management uses such non-GAAP information for financial and operational decision-making purposes and as a means to evaluate period over period comparisons of the underlying performance of its business and in forecasting the Company's business going forward. Management believes that the presentation of such non-GAAP information, when considered in conjunction with the most directly comparable GAAP information, provides additional useful comparative information for investors in their assessment of the underlying performance of the Company's business.

Results of Operations

Overview of Business, Seasonality and Foreign Currency

Business and Products

The Company designs, manufactures and sells a full line of high quality golf equipment, including golf clubs and golf balls, and apparel, gear and other products. The Company designs its golf products to be technologically advanced and in this regard invests a considerable amount in research and development each year. The Company designs its golf products for golfers of all skill levels, both amateur and professional. In addition, the Company designs and sells a full line of high quality soft goods, including golf bags, apparel, footwear and other golf accessories. In 2017, the Company expanded its soft goods lines with the acquisitions of OGIO and TravisMathew. Under the OGIO brand, the Company offers a full line of premium personal storage gear for sport and personal use and accessories. TravisMathew offers a full line of premium golf and lifestyle apparel as well as footwear and accessories. In January 2019, the Company completed the acquisition of JW Stargazer Holding GmbH, the owner of the international, premium outdoor apparel, gear and accessories brand, Jack Wolfskin. This acquisition further enhanced the Company's lifestyle category and provides a platform for future growth in the active outdoor and urban outdoor categories. The Company's soft goods under the Callaway, OGIO, TravisMathew and Jack Wolfskin brands are largely designed and developed internally.

On March 8, 2021, the Company completed its previously announced merger with Topgolf. Topgolf is a leading tech-enabled golf entertainment business, with an innovative platform that comprises its state-of-the-art open-air golf and entertainment venues, revolutionary Toptracer ball-tracking technology and innovative media platform. The combined company will benefit from a compelling family of brands with reach across multiple channels including retail, venues, e-commerce and digital communities. The Company's results of operations below therefore present the consolidated results of the Company and Topgolf for the three and six months ended ended June 30, 2021.

The Company’s Topgolf subsidiary operates on a 52- or 53-week fiscal year ending on the Sunday closest to December 31. As such, the Topgolf financial information included in the Company’s consolidated condensed financial statements for the six months ended June 30, 2021 is from March 8, 2021 through July 4, 2021. Additionally, based on the Company's assessment of the combined business, the Company modified the presentation of its consolidated condensed statements of operations for the three and six months ended June 30, 2021 and 2020. For further information about the merger with Topgolf see Note 6 "Business Combinations" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

The Company’s Topgolf operating segment is comprised of Topgolf venues, Toptracer and media that leverage its brand, proprietary technology, and hospitality offerings to create entertainment experiences for its guests.

The Venues business consists of Company-operated venues within the United States and company-operated and franchised venues outside the United States. Topgolf’s venues offer state-of-the-art entertainment facilities with multiple forms of entertainment and are equipped with technology-enabled hitting bays, multiple bars, dining areas and exclusive event spaces. Revenue from Company-operated venues is primarily derived from food and beverage, gameplay, and events. Topgolf receives a royalty from its franchised locations. As of June 30, 2021, Topgolf had 64 venues and one lounge operating in the United States, with an additional eight venues under construction, three Company-operated venues in the United Kingdom, with an additional one under construction, and three franchised venues (in Australia, Mexico and the United Arab Emirates), with an additional two franchised venues under construction in (in Germany and Thailand).

Topgolf has other lines of business, including the Toptracer ball-flight tracking technology, which is licensed to independent driving ranges and used in golf broadcasts, the World Golf Tour ("WGT") digital golf game, digital content creation and sponsorship operations. As of June 30, 2021, Topgolf had 11,055 Toptracer bays installed.

Operating and Reportable Segments

The Company has three operating and reportable segments, namely Golf Equipment, Apparel, Gear and Other and Topgolf.

The Golf Equipment operating segment, which is comprised of golf club and golf ball products, includes Callaway Golf branded woods, hybrids, irons, wedges, Odyssey putters, including Toulon Design putters by Odyssey, packaged sets, Callaway Golf and Strata branded golf balls and sales of pre-owned golf clubs.

The Apparel, Gear and Other operating segment includes Jack Wolfskin outdoor apparel, gear and accessories business, the TravisMathew golf and lifestyle apparel and accessories business, and the Callaway and OGIO businesses, which consist of golf apparel and accessories, storage gear for sport and personal use, and royalties from licensing of the Company’s trademarks and service marks for various soft goods products.

The Topgolf operating segment includes Company-operated Topgolf venues equipped with technology-enabled hitting bays, multiple bars, dining areas and event spaces, franchised venues outside of the United States, Toptracer ball-flight tracking technology used by independent driving ranges and broadcast television and the Company's WGT digital golf game.

For further information about the Company's segments, see Note 19 “Segment Information” to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

Cost of Products and Services

The Company’s cost of products is comprised primarily of material and component costs, distribution and warehousing costs, and overhead. In addition, cost of products includes retail merchandise costs for products sold in retail shops within Topgolf venue facilities. Historically, over 85% of the Company's manufacturing costs, primarily material and component costs, are variable in nature and fluctuate with sales volumes. With respect to the Company's Golf Equipment operating segment, variable costs as a percentage of cost of sales range between 85% to 95% for golf club products and 70% to 80% for golf ball products. Variable costs for soft goods in the Apparel, Gear and Other operating segment are generally greater than 85% as fewer fixed costs are used in the manufacturing of soft goods products. Generally, the relative significance of the components of cost of sales does not vary materially from these percentages from period to period.

The Company’s cost of services primarily consists of food and beverage costs and transaction fees with respect to in-app purchases within the Company’s WGT digital golf game. In addition, cost of services include hardware costs with respect to Topgolf's Toptracer license agreements classified as sales-type leases. Food and beverage costs are variable by nature, change with sales volume, and are impacted by product mix and commodity pricing.

Other Venue Expenses

Other venue expenses consist of salaries and wages, bonuses, commissions, payroll taxes, and other employee costs that directly support venue operations, rent and occupancy costs, property taxes, depreciation associated with venues, supplies, credit card fees and marketing expenses. The Company anticipates that expenses associated with labor and benefits will increase in the foreseeable future as the Topgolf business continues to expand its operations. Other venue expenses include both fixed and variable components and are therefore not directly correlated with revenue.

Venue Pre-Opening Costs

Venue pre-opening costs primarily include costs associated with activities prior to the opening of a new company-operated venue, as well as other costs that are not considered in the evaluation of ongoing performance. The Company expects to continue incurring pre-opening costs as it executes its growth trajectory of adding new company-operated venues. Pre-opening costs are expected to fluctuate based on the timing, size and location of new company-operated venues.

For a further discussion of revenue and costs on the Company's segments, see "Operating Segment Results for the Three and Six Months Ended June 30, 2021 and 2020—Segment Profitability."

Seasonality

Golf Equipment

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

Apparel, Gear and Other

Sales of the Company's golf and lifestyle apparel, gear and accessories generally follow the same seasonality as golf equipment, and are therefore generally higher during the first half of the year when the game of golf is mostly played. Sales of outdoor apparel, footwear and equipment related to the Jack Wolfskin business focuses primarily on outerwear and consequently experiences stronger sales for such products during the cold-weather months and the corresponding prior sell-in periods. Therefore, sales of Jack Wolfskin products are generally greater during the second half of the year.

Topgolf

Operating results fluctuate from quarter to quarter due to seasonal factors. Historically, venues experience nominally higher second and third quarter revenues associated with the spring and summer. Topgolf’s first and fourth quarters have historically had lower revenues at its venues as compared to the other quarters due to cooler temperatures. Seasonality is expected to be a factor in Topgolf's results of operations. As a result, factors affecting peak seasons at venues, such as adverse weather, could have a disproportionate effect on its operating results.

Foreign Currency

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

Executive Summary

The second quarter and first six months of 2021 were marked by record results for both revenue and operating income resulting from more consumers actively participating in the game of golf, leading to a surge in demand for the Company's products and services. The Company’s net revenue and results from operations in the second quarter and first six months of 2020 were adversely impacted in all markets and regions as much of the Company’s business in the second quarter was shut down due to the pandemic. Following the second quarter of 2020, the Company experienced an unprecedented demand for golf equipment and accessories, and the Company’s soft goods business rebounded faster than anticipated and exceeded expectations. As a result, second quarter net revenue increased $616.6 million, or 207.6%, to $913.7 million, while revenue for the first six months of the year increased $825.9 million, or 111.7%, to $1,565.2 million. This significant growth was driven by improved operating performance across all the Company's business segments. The Company's Golf Equipment and Apparel, Gear & Other segments delivered strong results as demand remained high for golf clubs and balls in addition to the Company's soft goods brands, namely TravisMathew and Jack Wolfskin, which grew despite retail pressures from COVID-19 shutdowns. The increase in net revenues also reflect incremental revenues of $325.5 million and $418.1 million in the second quarter and first half of 2021, respectively, due to the Topgolf merger, which was completed on March 8, 2021, and was included in the Company's results for the entire second quarter along with four weeks in first quarter 2021.

Operating income increased $284.7 million in the second quarter of 2021 to $107.3 million, compared to an operating loss of $177.4 million in the second quarter of the prior year period. Golf Equipment makes up the largest portion of operating income and was positively impacted by very strong top-line growth, operating expense leverage and favorable foreign currency exchange rates.

The Apparel, Gear and Other segment was a strong contributor to the Company’s growth in the second quarter of 2021 and year-to-date as well, as TravisMathew’s brand awareness and momentum accelerated and Jack Wolfskin delivered improved results, despite significant shutdowns in Europe through much of the first half of 2021.

As the United States economy reopened in the second quarter of 2021, following pandemic-related dining and entertainment venue closures, Topgolf’s business exceeded expectations with both new and experienced golfers utilizing the unique venues to practice and learn the game of golf. Topgolf contributed $325.5 million of net revenue and $24.2 million of segment operating income in the second quarter of 2021, both incremental to the comparative period in 2020. The Company continues to be excited by the growth opportunity embedded within the Topgolf business and feels it will be a strong contributor to overall growth for the Company and for the industry as more consumers are introduced to golf through Topgolf venues.

Looking forward, the Company is pleased that all of its business segments support an active outdoor lifestyle that is compatible with a world of social distancing. The Company is optimistic that its unique portfolio of businesses with the recent addition of Topgolf, as well as its continued brand momentum and increased demand for golf equipment, combined with the better than anticipated recovery in its soft goods business, will continue throughout the balance of 2021. There are some continuing challenges from the pandemic that will have a significant effect on the Company’s business in the short-term, including supply chain constraints, increased freight costs, staffing challenges and inflationary pressures. However, the Company believes that current demand levels, along with certain actions it can take, will mitigate the impact of these factors. The Company anticipates having strong financial results for the year, and it is energized by the opportunities ahead, and believes it is well situated to handle the prolonged pandemic.

Three-Month Periods Ended June 30, 2021 and 2020

Net Revenues

Net revenues for the second quarter of 2021 increased $616.6 million (207.6%) to $913.6 million compared to $297.0 million in the second quarter of 2020. This increase was driven by incremental net revenues of $325.5 million due to the merger with Topgolf, which represents a full quarter impact on net revenues since the completion of the merger on March 8, 2021. In addition, the increase in net revenues reflects the strength of the Company's Golf Equipment and Apparel, Gear and Other businesses, which increased $291.2 million or 98.0% compared to the second quarter of 2020. Net revenues from the Company's Golf Equipment and Apparel, Gear and Other businesses experienced significant increases across all product categories and in all major geographic regions, resulting from high demand of the Company'g golf and lifestyle products amid increased popularity for the game of golf as it continues to be a safe outdoor activity compatible with the norms of social distancing. Net revenues in the second quarter of 2020 were negatively impacted by the temporary closure of the Company's retail locations, manufacturing facilities and distributions centers, as well as its customers' retail locations, due to the COVID-19 pandemic. Fluctuations in foreign currencies had a favorable impact on net revenues of $18.3 million in the second quarter of 2021.

The Company’s net revenues by operating segment are presented below (dollars in millions):

	Three Months Ended June 30,		Growth	
	2021	2020	Dollars	Percent
Net revenues:				
Golf Equipment	$ 401.3	$ 209.9	$ 191.4	91.2 %
Apparel, Gear and Other	186.9	87.1	99.8	114.6 %
Topgolf	325.4	—	325.4	—
	$ 913.6	$ 297.0	$ 616.6	207.6 %

For further discussion of each operating segment’s results, see "Operating Segment Results for the Three Months Ended June 30, 2021 and 2020" below.

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

	Three Months Ended June 30,		Growth		Constant Currency Growth vs. 2020
	2021	2020	Dollars	Percent	Percent
Net revenues:					
United States	$ 642.8	$ 171.7	$ 471.1	274.4 %	274.4%
Europe	121.0	50.1	70.9	141.5 %	118.7%
Japan	61.9	24.6	37.3	151.6 %	155.3%
Rest of World	87.9	50.6	37.3	73.7 %	58.5%
	$ 913.6	$ 297.0	$ 616.6	207.6 %	201.5%

Net revenues in the United States increased $471.1 million (274.4%) to $642.8 million during the second quarter of 2021 compared to $171.7 million in the second quarter of 2020. The Company’s sales in regions outside of the United States increased $145.5 million (116.1%) to $270.8 million during the second quarter of 2021 compared to $125.3 million in the second quarter of 2020. The increase in both domestic and international net revenue in the second quarter of 2021 reflects the addition of the Topgolf business, as well as the continued strength and brand momentum of the Company's Golf Equipment business, combined with a strong rebound in the TravisMathew and Jack Wolfskin businesses in the United States and Europe, respectively. Net revenues across all brands in the second quarter of 2020 were severely impacted by the temporary shutdown of many of the Company's and it's customer's retail locations and facilities in all major regions due to the COVID-19 pandemic. Foreign currency fluctuations had a favorable impact of $18.3 million on net revenues during the second quarter of 2021 relative to the same period in the prior year.

Costs and Expenses

Cost of products increased $140.1 million to $315.0 million for the second quarter of 2021 compared to $174.9 million for the same period in 2020. The Company’s cost of products are highly variable in nature and this increase is due to the significant increase in sales volumes in the second quarter of 2021, combined with an increase in freight and overall commodity costs. In the second quarter of 2020, sales volumes were significantly lower due to the business disruptions caused by the COVID-19 pandemic.

Costs of services of $42.8 million primarily consist of the cost of food and beverage sold in the Company’s Topgolf venues as well as certain costs associated with licensing the Company’s Toptracer ball-flight tracking technology.

Other venue expenses of $202.3 million primarily consist of Topgolf venue related depreciation and amortization, employee costs, rent, utilities, and other costs associated with Topgolf venues.

Selling, general and administrative expenses increased $105.9 million to $221.1 million (24.2% of net revenues) in the second quarter of 2021 compared to $115.2 million (38.8% of net revenues) in the second quarter of 2020. This increase reflects incremental expenses of $45.1 million related to the merger with Topgolf completed in March 2021, and a $6.4 million increase in non-recurring expenses primarily related to transition expenses incurred in connection with the merger with Topgolf. Excluding these incremental expenses and non-recurring charges, selling, general and administrative expenses increased $54.4 million (47.2%) primarily due to an increase in variable costs associated with the Company's improved results combined with the Company's gradual reinvestment in the business in the second quarter of 2021, compared to the cost savings initiatives that the Company implemented in response to the various restrictions imposed by the COVID-19 pandemic in the second quarter of 2020. This resulted in increases in employee costs, which include an overall increase in salaries and wages and employee incentive compensation, advertising and promotional expenses, tour, professional fees primarily related to IT infrastructure improvements, and building expenses.

Research and development expenses increased $10.3 million to $20.3 million (2.2% of net revenues) in the second quarter of 2021 compared to $10.0 million (3.4% of net revenues) in the second quarter of 2020, primarily due to incremental expenses of $7.8 million related to the merger with Topgolf completed in March 2021, and an increase in employee costs.

Venue pre-opening costs of $4.8 million primarily include costs associated with activities prior to the opening of a new Company operated venue, as well as other costs that are not considered in the evaluation of ongoing venue performance. The Company expects to continue to incur pre-opening costs as it executes its growth trajectory of adding new Company-operated venues. Pre-opening costs are expected to fluctuate based on the timing, size and location of new Company-operated venues.

Due to the significant business disruption and macro-economic impact of COVID-19 on the Company's financial results, the Company performed a quantitative assessment of its goodwill and non-amortizing intangible assets during the second quarter of 2020 resulting in an impairment charge of $174.3 million (see Note 9, "Goodwill and Intangible Assets" to the Notes to Consolidated Condensed Financial Statements included in Part I, Item 1, of this Form 10-Q).

Other Income and Expense

Interest expense increased by $16.8 million to $29.1 million in the second quarter of 2021 compared to $12.3 million in the second quarter of 2020 primarily due to incremental interest of $16.2 million related to the debt and deemed landlord financing liabilities acquired as part of the Topgolf merger. See Note 7 “Financing Arrangements” to the Notes to Consolidated Condensed Financial Statements included in Part I, Item 1, of this Form 10-Q.

Other income/expense decreased by $16.5 million to other expense of $2.5 million in the second quarter of 2021 compared to other income of $14.0 million in the second quarter of 2020, primarily due to an $11.0 million gain recognized in the second quarter of 2020 in connection with the settlement of a cross-currency swap, combined with a $4.5 million decrease in foreign currency transaction gains period over period.

Income Taxes

The benefit for income taxes increased by $8.0 million to $15.9 million in the second quarter of 2021, compared to $7.9 million in the second quarter of 2020. As a percentage of pre-tax income, the Company’s income tax rate was -20.9% in the second quarter of 2021 compared to 4.5% in the second quarter of 2020 primarily due to the release of a portion of the Company's valuation allowance on certain net operating losses in the second quarter of 2021. The effective tax rate in the second quarter of 2020 was impacted by the recognition of a $174.3 million non-deductible impairment charge to write-down certain goodwill and intangible assets related to Jack Wolfskin. Excluding these items as well as other non-recurring items from both periods, the Company's effective income tax rate would have been 22.5% for the second quarter of 2021 compared to 27.2% for the second quarter of 2020. This decline is primarily due to a shift in mix of earnings to regions with lower tax rates. For further discussion see Note 13 “Income Taxes” to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

Net Income (Loss)

Net income (loss) for the second quarter of 2021 increased $259.4 million to net income of $91.7 million compared to a net loss of $167.7 million in the second quarter of 2020, which includes the $174.3 million impairment charge. Diluted earnings (loss) per share increased $2.25 to earnings per share of $0.47 in the second quarter of 2021 compared to a loss per share of $1.78 in the second quarter of 2020.

On a non-GAAP basis, excluding the items described in the table below, the Company's net income and diluted earnings per share for the three months ended June 30, 2021 would have been $70.5 million and $0.36 per share, respectively, compared to $5.3 million and $0.06 per share, respectively, for the comparative period in 2020. The increase in non-GAAP earnings in 2021 was primarily driven by continued strong demand for the Company's products resulting from the overall increase in popularity of the game of golf combined with a strong rebound in revenues of the Company's apparel and soft goods product lines, and the incremental net income attributable to Topgolf. The Company's loss in the second quarter of 2020 resulted from the business disruptions and challenges caused by the COVID-19 pandemic and the $167.7 million impairment charge recognized in connection with Jack Wolfskin .

The table below presents a reconciliation of the Company's as-reported results for the three months ended June 30, 2021 and 2020 to the Company's non-GAAP results reported above for the same periods (in millions, except per share information).

	Three Months Ended June 30, 2021					
	GAAP	Non-Cash Acquisition Amortization(1)	Non-Cash Amortization of Discount on Convertible Notes(2)	Acquisition and Other Non-Recurring Items(3)	Tax Valuation Allowance(4)	Non-GAAP
Net income (loss)	$ 91.7	$ (6.8)	$ (2.0)	$ (2.7)	$ 32.7	$ 70.5
Diluted earnings (loss) per share	$ 0.47	$ (0.03)	$ (0.01)	$ (0.02)	$ 0.17	$ 0.36
Weighted-average shares outstanding	194.3	194.3	194.3	194.3	194.3	194.3

	Three Months Ended June 30, 2020				
	GAAP	Non-Cash Acquisition Amortization and Impairment Charges(1)	Non-Cash Amortization of Discount on Convertible Notes(2)	Other Non-Recurring Items(3)	Non-GAAP
Net income (loss)	$ (167.7)	$ (167.3)	$ (1.2)	$ (4.5)	$ 5.3
Diluted earnings (loss) per share	$ (1.78)	$ (1.78)	$ (0.01)	$ (0.05)	$ 0.06
Weighted-average shares outstanding	94.1	94.1	94.1	94.1	94.1

(1) Amounts for the second quarters of 2021 and 2020 include the non-cash amortization expense of intangible assets in connection with the acquisitions of Jack Wolfskin, TravisMathew and OGIO. In addition, the second quarter of 2021 includes non-cash amortization expense related to intangible assets acquired in connection with the merger with Topgolf in March 2021, as well as depreciation expense from the fair value step-up of Topgolf property, plant and equipment and amortization expense related to the fair value adjustments to Topgolf leases. The second quarter of 2020 also reflects an impairment charge of $174.3 million to write-down goodwill and the trade name related to Jack Wolfskin.

(2) Represents the non-cash amortization of the discount on the convertible notes issued in May 2020.

(3) Acquisition and other non-recurring items for the second quarter of 2021 primarily include transaction, transition and other non-recurring charges in connection with the merger with Topgolf, as well as implementation costs for new IT systems for Jack Wolfskin. Other non-recurring items for the second quarter of 2020 primarily include redundant costs associated with the Company's transition of its North America distribution center to a new facility, implementation costs for new IT systems for Jack Wolfskin, and severance charges associated with workforce reductions due to the COVID-19 pandemic.

(4) Represents the release of a portion of the valuation allowance attributable to the merger with Topgolf.

Operating Segment Results for the Three Months Ended June 30, 2021 and 2020

As a result of the Topgolf merger, the Company now has three operating segments, namely Golf Equipment; Apparel, Gear and Other; and Topgolf.

Golf Equipment

Golf Equipment net revenues increased $191.4 million (91.2%) to $401.3 million in the second quarter of 2021 compared to $209.9 million in the second quarter of 2020 due to a $164.0 million (105.1%) increase in golf club sales and a $27.4 million (50.8%) increase in golf ball sales. These increases were driven by the continued unprecedented surge in golf demand and participation, combined with the successful launch of the Company's new EPIC line of woods and APEX line of irons and the continued success of the Chrome Soft and Super Soft lines of golf balls, which resulted in a significant increase in sales volume across all product categories. Net revenues of golf equipment in the second quarter of 2020 were negatively impacted by the temporary closure of the Company's retail locations, manufacturing facilities and distributions centers, as well as its customers' retail locations, for the majority of the quarterly period caused by the COVID-19 pandemic.

Net revenues information for the Golf Equipment operating segment by product category is summarized as follows (dollars in millions):

	Three Months Ended June 30,		Growth	
	2021	2020	Dollars	Percent
Net revenues:				
Golf Clubs	$ 320.0	$ 156.0	$ 164.0	105.1 %
Golf Balls	81.3	53.9	27.4	50.8 %
	$ 401.3	$ 209.9	$ 191.4	91.2 %

Apparel, Gear and Other

Net revenues of Apparel, Gear and Other increased $99.8 million (114.6%) to $186.9 million in the second quarter of 2021 compared to $87.1 million in the second quarter of 2020. Apparel sales increased $55.1 million (151.8%) and sales of gear, accessories and other increased $44.7 million (88.0%) in the second quarter of 2021 compared to the second quarter of 2020. The increase in Apparel, Gear & Other was due to a strong rebound across all brands compared to the second quarter of 2020, which was severely impacted by the shutdown of distribution centers and many retail stores in all major regions. The increase in apparel sales was driven by increases across each of the Company's TravisMathew, Jack Wolfskin and Callaway apparel brands. The increase in Gear, Accessories and Other sales was driven by strong demand across all golf accessory categories for the Callaway brand, headwear and footwear for TravisMathew, and footwear at Jack Wolfskin.

The increase in TravisMathew sales was driven by strong brand momentum across all sales channels. The Callaway brand increased due to a significant increase in demand for golf accessories driven by the heightened popularity of the game of golf. The increase in Jack Wolfskin sales was driven by significant e-commerce sales and an increase in the wholesale business in Europe, despite most European retail locations being shut down for a significant portion of the second quarter.

Net revenues information for the Apparel, Gear and Other operating segment is summarized as follows (dollars in millions):

	Three Months Ended June 30,		Growth	
	2021	2020	Dollars	Percent
Net revenues:				
Apparel	$ 91.4	$ 36.3	$ 55.1	151.8 %
Gear, Accessories, & Other	95.5	50.8	44.7	88.0 %
	$ 186.9	$ 87.1	$ 99.8	114.6 %

Topgolf

Net revenues for Topgolf were $325.4 for the second quarter of 2021. Topgolf revenue is primarily generated from Company-operated venues equipped with technology-enabled hitting bays, multiple bars, dining areas and event spaces. Other business lines primarily include the Toptracer ball-flight tracking technology used by independent driving ranges and broadcast television, and the Company's WGT digital golf game.

Net revenues information for the Topgolf segment is summarized as follows (dollars in millions):

	Three months ended June 30, 2021
Net revenues:	
Venues	$ 303.4
Other business lines	22.0
	$ 325.4

Segment Profitability

The Company evaluates the performance of its operating segments based on segment operating income. Management uses total segment operating income as a measure of its operational performance, excluding corporate overhead and certain non-recurring and non-cash charges.

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

	Three Months Ended June 30,		Growth		Non-GAAP Constant Currency Growth vs. 2020(1)
	2021	2020	Dollars	Percent	Percent
Net revenues:					
Golf Equipment	$ 401.3	$ 209.9	$ 191.4	91.2 %	86.1%
Apparel, Gear and Other	186.9	87.1	99.8	114.6 %	108.4%
Topgolf	325.4	—	325.4	—	—
Total net revenues	$ 913.6	$ 297.0	$ 616.6	207.6 %	201.5%
Segment operating income:					
Golf Equipment	$ 98.1	$ 29.2	$ 68.9	236.0 %	
Apparel, Gear and Other	15.7	(11.7)	27.4	234.2 %	
Topgolf	24.2	—	24.2	—	
Total segment operating income	138.0	17.5	120.5	688.6 %	
Corporate G&A and other(2)	30.7	194.9	(164.2)	(84.2)%	
Total operating income	107.3	(177.4)	284.7	(160.5)%	
Interest expense, net	(28.9)	(12.2)	(16.7)	136.9 %	
Other income, net	(2.5)	14.0	(16.5)	(117.9)%	
Total income before income taxes	$ 75.9	$ (175.6)	$ 251.5	(143.2)%	

(1) Calculated by applying 2020 exchange rates to 2021 reported sales in regions outside the United States.
(2) Amounts for the second quarter of 2021 and 2020 include corporate general and administrative expenses not utilized by management in determining segment profitability, as well as non-cash amortization expense of intangible assets in connection with the acquisitions of OGIO, TravisMathew and Jack Wolfskin. In addition, the amount for 2021 includes (i) $2.5 million of transaction, transition and other non-recurring costs associated with the merger with Topgolf completed on March 8, 2021, (ii) $6.2 million of non-cash amortization expense for intangible assets acquired in connection with the merger with Topgolf, combined with depreciation expense from the fair value step-up of Topgolf property, plant and equipment and amortization expense related to the fair value adjustments to Topgolf leases, and (iii) $0.8 million of costs related to the implementation of new IT systems for Jack Wolfskin. The amount for the second quarter of 2020 includes (i) an impairment charge of $174.3 million related to Jack Wolfskin, (ii) $3.7 million of severance charges associated with workforce reductions due to the COVID-19 pandemic, (iii) $1.8 million

of non-recurring costs associated with the Company's transition to the new North America Distribution Center as well as costs related to the implementation of new IT systems for Jack Wolfskin.

Operating income for the golf equipment operating segment increased $68.9 million (236.0%) to $98.1 million in the second quarter of 2021 from $29.2 million in the second quarter of 2020. This increase was driven by a significant increase in sales volume across all product categories as discussed above, in addition to the favorable impact of foreign currency exchange rates, the positive impact of leveraging fixed overhead and operating expenses on a higher revenue base period over period, and less promotional and discounting activities. In addition, the Company's second quarter results for its golf equipment business were severely impacted by the business disruptions and challenges caused by the COVID-19 pandemic.

Operating income for the apparel, gear and other operating segment increased $27.4 million (234.2%) to $15.7 million in the second quarter of 2021 compared to a pre-tax loss of $11.7 million in the second quarter of 2020. This increase was driven by a strong rebound in sales across all brands as discussed above combined with the favorable impact of foreign currency exchange rates, in addition to the favorable impact of leveraging fixed overhead and operating expenses on a higher revenue base period over period, less promotional activity, and an increase in direct-to-consumer e-commerce sales, which have higher profit margins relative to wholesale.

Topgolf contributed an incremental $24.2 million of operating income in the second quarter of 2021, which includes the opening of four new domestic locations during the second quarter of 2021, and a higher level of customer engagement as venues welcomed guests back to all locations.

Six-Month Period Ended June 30, 2021 and 2020

Net Revenues

Net revenues for the six months ended June 30, 2021 increased $825.9 million (111.7%) to $1,565.3 million compared to $739.3 million for the six months ended June 30, 2020. This increase was driven by $418.1 million of incremental Topgolf net revenues, which has been included in the Company's consolidated reported net revenues since the completion of the merger on March 8, 2021. In addition, the increase in net revenues reflects the strength of the Company's legacy Golf Equipment and Apparel, Gear and Other businesses, which increased $407.8 million (49.4%) compared to the first half of 2020. Net revenues from the Company's Golf Equipment and Apparel, Gear and Other businesses experienced significant increases across all product categories and in all major geographic regions, resulting from the success of the Company's current year product lines and overall brand momentum, and the continued popularity of the game of golf. Net revenues in the first half of 2020 were negatively impacted by temporary closure of the Company's retail locations, manufacturing facilities and distributions centers, as well as its customers' retail locations due to the COVID-19 pandemic. Fluctuations in foreign currencies had a favorable impact on net revenues of $35.0 million in the first six months of 2021.

The Company’s net revenues by operating segment are presented below (dollars in millions):

	Six Months Ended June 30,		Growth	
	2021	2020	Dollars	Percent
Net revenues:				
Golf Equipment	$ 778.1	$ 501.6	$ 276.5	55.1 %
Apparel, Gear and Other	369.0	237.7	131.3	55.2 %
Topgolf	418.1	—	418.1	—
	$ 1,565.2	$ 739.3	$ 825.9	111.7 %

For further discussion of each operating segment’s results, see below “Operating Segment Results for the Six Months Ended June 30, 2021 and 2020.”

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

	Six Months Ended June 30,				Growth			Non-GAAP Constant Currency Growth vs. 2020
	2021		2020		Dollars		Percent	Percent
Net revenues:								
United States	$	1,031.0	$	389.2	$	641.8	164.9 %	164.9%
Europe		229.3		146.8		82.5	56.2 %	42.5%
Japan		133.7		102.0		31.7	31.1 %	30.5%
Rest of World		171.2		101.3		69.9	69.0 %	55.2%
	$	1,565.2	$	739.3	$	825.9	111.7 %	107.0%

Net revenues in the United States increased $641.8 million (164.9%) to $1,031.0 million during the six months ended June 30, 2021 compared to the same period in the prior year. Net revenues in regions outside of the United States increased $184.1 million (52.6%) to $534.2 million for the six months ended June 30, 2021 compared to $350.1 million for the six months ended June 30, 2020. The increase in both domestic and international net revenue in the first half of 2021 reflects the addition of the Topgolf business, as well as the continued strength and brand momentum of the Company's Golf Equipment business, combined with the strong rebound of the TravisMathew business in the United States and Jack Wolfskin business in Europe and China. Net revenues across all brands in the first half of 2020 were severely impacted by the temporary shutdown of many of the Company's and its customer's retail locations and facilities in all major regions due to the COVID-19 pandemic. Fluctuations in foreign currencies had a favorable impact on international net revenues of $35.0 million in the first six months of 2021 relative to the same period in the prior year.

Costs and Expenses

Costs of products increased $204.1 million to $625.6 million for the six months ended June 30, 2021 compared to $421.5 million for the same period in 2020. The Company’s cost of products are highly variable in nature and this increase is due to the significant increase in sales volumes in the first six months of 2021, combined with an increase in freight and overall commodity costs. In the first six months of 2020, sales volumes were significantly lower due to the business disruptions caused by the COVID-19 pandemic.

Costs of services of $53.8 million primarily consist of the cost of food and beverage sold in the Company’s Topgolf venues as well as certain costs associated with licensing the Company’s Toptracer ball-flight tracking technology.

Other venue expenses of $267.8 million primarily consist of Topgolf venue related depreciation and amortization, employee costs, rent, utilities, and other costs associated with Topgolf venues.

Selling, general and administrative expenses increased by $138.0 million to $395.0 million (25.2% of net revenues) during the six months ended June 30, 2021 compared to $257.0 million (34.8% of net revenues) in the comparable period of 2020. This increase reflects incremental expenses of $53.3 million related to the merger with Topgolf completed in March 2021, and a $26.6 million increase in non-recurring expenses, which include transaction and transition expenses incurred in connection with the merger with Topgolf, expenses related to the implementation of new IT systems for Jack Wolfskin, and non-cash amortization expense related to acquired intangible assets. Excluding these incremental expenses and non-recurring charges, selling, general and administrative expenses increased $59.3 million (23.6%) due to an increase in variable costs combined with the Company's gradual reinvestment in the business in the first half of 2021, compared to the cost savings initiatives that the Company implemented in response to the various restrictions imposed by the COVID-19 pandemic in the first half of 2020. This resulted in increases in employee costs, which include an overall increase in salaries and wages and employee incentive compensation, advertising and promotional expenses, tour, professional fees primarily related to IT projects and infrastructure improvements, building and furniture expenses, and depreciation and amortization expense.

Research and development expenses increased $9.7 million to $33.0 million (2.1% of net revenues) in the six months ended June 30, 2021 compared to $23.3 million (3.1% of net revenues) the same period in 2020, primarily due to incremental expenses of $7.8 million related to the merger with Topgolf completed in March 2021, and an increase in employee costs.

Venue pre-opening costs of $6.7 million consist of costs associated with activities prior to the opening of a new Company-operated venue, as well as other costs that are not considered in the evaluation of ongoing performance. The Company expects to continue to incur pre-opening costs as it executes its growth trajectory of adding new Company-operated venues. These costs are expected to fluctuate based on the timing, size and location of new Company-operated venues.

Due to the significant business disruption and macro-economic impact of COVID-19 on the Company's financial results, the Company performed a quantitative assessment of its goodwill and non-amortizing intangible assets during the second quarter of 2020 resulting in an impairment charge of $174.3 million (see Note 9, "Goodwill and Intangible Assets" to the Notes to Consolidated Condensed Financial Statements included in Part I, Item 1, of this Form 10-Q).

Other Income and Expense

Interest expense increased by $25.1 million to $46.6 million during the six months ended June 30, 2021 compared to $21.5 million in the comparable period of 2020, primarily due to the interest expense related to the debt and deemed landlord financing liabilities acquired as part of the Topgolf merger. See Note 7 “Financing Arrangements” to the Notes to Consolidated Condensed Financial Statements included in Part I, Item 1, of this Form 10-Q.

As a result of the merger with Topgolf, the Company wrote up the value of its pre-merger shares of Topgolf to their fair value and recorded a gain of $252.5 million during the first quarter of 2021.

Other income decreased to $6.5 million during the six months ended June 30, 2021 compared to $20.5 million in the comparable period of 2020. This decline was primarily due to the $11.0 million gain recognized in the second quarter of 2020 in connection with the settlement of a cross-currency swap, in addition to an increase in net foreign currency losses.

Income Taxes

The Company’s provision for income taxes increased $30.7 million to $31.9 million for the six months ended June 30, 2021, compared to $1.2 million in the comparable period of 2020. As a percentage of pre-tax income, the Company's effective tax rate for the first six months of 2021 increased to 8.1% compared to (0.9)% in the comparable period of 2020, The Company's effective tax rate in 2021 was impacted by the $252.5 million nontaxable gain recognized on the Company's pre-merger investment Topgolf shares as well as the recognition of a valuation allowance on certain net operating losses and tax credits. The Company's effective tax rate for the first six months of 2020 was impacted by the recognition of a $174.3 million non-deductible impairment charge to write-down certain goodwill and intangible assets related to Jack Wolfskin. Excluding these non-recurring items from both periods, the Company's effective income tax rate would have been 17.9% for the first six months of 2021 compared to 24.8% for the first six months in 2020. This decline is primarily due to a shift in mix of earnings to regions with lower tax rates. For further discussion see Note 13 “Income Taxes” to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

Net Income (Loss)

Net income (loss) for the six months ended June 30, 2021 increased to net income of $364.2 million compared to a net loss of $138.8 million in the comparable period of 2020. Diluted earnings (loss) per share increased $3.75 to earnings of $2.28 per share in the first six months of 2021 compared to a loss per share of $1.47 in the same period in 2020.

On a non-GAAP basis, excluding the items described in the table below, the Company's net income and diluted earnings per share for the three months ended June 30, 2021 would have been $147.1 million and $0.92 per share, respectively, compared to $36.3 million and $0.38 per share, respectively, for the comparative period in 2020. The increase in non-GAAP earnings in 2021 was primarily driven by continued strong demand for the Company's products resulting from the overall increase in popularity of the game of golf, combined with a strong rebound in revenues of the Company's apparel and soft goods product lines, and the incremental net income attributable to Topgolf. Additionally, the Company's earnings in 2020 were negatively impacted by the business disruptions and challenges caused by the COVID-19 pandemic.

The table below presents a reconciliation of the Company's as-reported results for the six months ended June 30, 2021 and 2020 to the Company's non-GAAP results reported above for the same periods (in millions, except per share information).

	Six Months Ended June 30, 2021					
	GAAP	Non-Cash Acquisition Amortization(1)	Non-Cash Amortization of Discount on Convertible Notes(2)	Acquisition and Other Non-Recurring Items(3)	Tax Valuation Allowance(4)	Non-GAAP
Net income (loss)	$ 364.2	$ (9.7)	$ (3.9)	$ 236.9	$ (6.2)	$ 147.1
Diluted earnings (loss) per share	$2.28	$(0.06)	$(0.02)	$1.48	$(0.04)	$0.92
Weighted-average shares outstanding	159.6	159.6	159.6	159.6	159.6	159.6

	Six Months Ended June 30, 2020				
	GAAP	Non-Cash Acquisition Amortization and Impairment Charges(1)	Non-Cash Amortization of Discount on Convertible Notes(2)	Other Non-Recurring Items(3)	Non-GAAP
Net income (loss)	$ (138.8)	$ (168.2)	$ (1.2)	$ (5.7)	$ 36.3
Diluted earnings (loss) per share	$ (1.47)	$ (1.78)	$ (0.01)	$ (0.06)	$ 0.38
Weighted-average shares outstanding	94.2	94.2	94.2	94.2	94.2

(1) Includes the non-cash amortization expense of intangible assets in connection with the acquisitions of Jack Wolfskin, TravisMathew and OGIO. In addition, the six months ended June 30, 2021 includes approximately four months of non-cash amortization expense of the intangible assets acquired in the merger with Topgolf on March 8, 2021, as well as depreciation expense from the fair value step-up of Topgolf property, plant and equipment and amortization expense related to the fair value adjustments to Topgolf leases. The first six months of 2020 also reflects an impairment charge of $174.3 million to write-down goodwill and the trade name related to Jack Wolfskin.

(2) Represents the non-cash amortization of the discount on the Convertible Notes issued in May 2020.

(3) Other non-recurring items for the six months ended June 30, 2021 include a gain to write-up the Company's pre-acquisition investment in Topgolf to its fair value, as well as transaction, transition and other non-recurring costs related to the Topgolf merger, and costs related to the implementation of new IT systems for Jack Wolfskin. Items for the comparable period of 2020 include costs associated with the Company's transition to its new North America Distribution Center, costs related to the implementation of new IT systems for Jack Wolfskin, as well as severance charges associated with workforce reductions due to the COVID-19 pandemic.

(4) As Topgolf's losses exceed Callaway's income in prior years, the Company has recorded a valuation allowance against certain of its deferred tax assets until the Company can demonstrate consolidated earnings.

Operating Segment Results for the Six Months Ended June 30, 2021 and 2020

As a result of the Topgolf merger, the Company now has three operating segments, namely Golf Equipment; Apparel, Gear and Other; and Topgolf.

Golf Equipment

Golf equipment net revenues increased $276.5 million (55.1%) to $778.1 million for the six-months ended June 30, 2021 compared to $501.6 million for the same period in 2020 due to a $229.1 million (56.2%) increase in golf club revenue and a $47.5 million (50.3%) increase in golf ball revenue. These increases were driven by the continued unprecedented surge in golf demand and participation, combined with the successful launch of the Company's new EPIC line of woods and APEX line of irons and the continued success of the Chrome Soft and Super Soft lines of golf balls, which resulted in a significant increase in sales volume across all product categories. Net revenues of golf equipment in the first half of 2020 were negatively impacted by temporary closure of the Company's retail locations, manufacturing facilities and distributions centers, as well as its customers' retail locations, for the majority of the second quarter due to the COVID-19 pandemic.

Net revenues information for the Golf Equipment operating segment by product category is summarized as follows (dollars in millions):

	Six Months Ended June 30,		Growth	
	2021	2020	Dollars	Percent
Net revenues:				
Golf Clubs	$ 636.3	$ 407.3	$ 229.0	56.2 %
Golf Balls	141.8	94.3	47.5	50.4 %
	$ 778.1	$ 501.6	$ 276.5	55.1 %

Apparel, Gear and Other

Apparel, Gear and Other sales increased $131.3 million (55.3%) to $369.0 million during the six months ended June 30, 2021 compared to $237.7 million for the same period in 2020, due to a $73.1 million (64.3%) increase in apparel sales and a $58.2 million (46.9%) increase in sales of gear, accessories and other. The increase in the apparel, gear and other segment was due to a strong rebound across all brands in the first half of 2021 compared to the same period in 2020, which was severely impacted by the shutdown of distribution centers and many retail stores in all major regions due to the COVID-19 pandemic. The increase in apparel was driven by increases across each of the Company's TravisMathew, Jack Wolfskin and Callaway apparel brands. The increase in gear, accessories and other was driven by strong increases across all golf accessory categories for the Callaway brand, headwear and footwear for TravisMathew, and footwear at Jack Wolfskin.

The increase for TravisMathew products was driven by strong brand momentum and increases across all sales channels. The Callaway brand increased due to a unprecedented demand for golf accessories driven by the heightened popularity of the game of golf. The increase for Jack Wolfskin was driven by significant e-commerce sales and an increase in the wholesale business in China, partially offset by lower retail revenue due to further government-mandated retail shutdowns during the second quarter of 2021 in Europe.

Net revenues information for the Apparel, Gear and Other segment is summarized as follows (dollars in millions):

	Six Months Ended June 30,		Growth	
	2021	2020	Dollars	Percent
Net revenues:				
Apparel	$ 186.7	$ 113.6	$ 73.1	64.3 %
Gear, Accessories, & Other	182.3	124.1	58.2	46.9 %
	$ 369.0	$ 237.7	$ 131.3	55.2 %

Topgolf

On March 8, 2021 the Company completed its merger with Topgolf, and the Company’s results of operations include the operations of Topgolf from that date forward. Topgolf contributed $418.1 million in net revenues for the six months ended June 30, 2021, which includes approximately four months of revenues since the completion of the merger. Topgolf revenue is primarily generated from Company-operated venues equipped with technology-enabled hitting bays, multiple bars, dining areas and event spaces. Other business lines primarily include the Toptracer ball-flight tracking technology used by independent driving ranges and broadcast television, and the Company's WGT digital golf game.

Net revenues information for the Topgolf segment is summarized as follows (dollars in millions):

	Six months ended June 30, 2021
Net revenues:	
Venues	$ 388.6
Other business lines	29.5
	$ 418.1

Segment Profitability

The Company evaluates the performance of its operating segments based on segment operating income. Management uses total segment operating income as a measure of its operational performance, excluding corporate overhead and certain non-recurring and non-cash charges.

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

	Six Months Ended June 30,		Growth		Non-GAAP Constant Currency Growth vs. 2020(1)
	2021	2020	Dollars	Percent	Percent
Net revenues:					
Golf Equipment	$ 778.1	$ 501.6	$ 276.5	55.1 %	51.3%
Apparel, Gear and Other	369.0	237.7	131.3	55.2 %	49.7%
Topgolf	418.1	—	418.1	—	—
Total net revenues	$ 1,565.2	$ 739.3	$ 825.9	111.7 %	107.0%
Segment operating income (loss):					
Golf Equipment	$ 183.0	$ 87.8	$ 95.2	108.4 %	
Apparel, Gear and Other	36.2	(15.5)	51.7	333.5 %	
Topgolf	28.2	—	28.2	—	
Total segment operating income	247.4	72.3	175.1	242.2 %	
Corporate G&A and other(2)	64.0	209.1	(145.1)	(69.4)%	
Total operating income (loss)	183.4	(136.8)	320.2	(234.1)%	
Gain on Topgolf investment(3)	252.5	—	252.5	—	
Interest expense, net	(46.3)	(21.3)	(25.0)	117.4 %	
Other income, net	6.5	20.5	(14.0)	(68.3)%	
Total income (loss) before income taxes	$ 396.1	$ (137.6)	$ 533.7	(387.9)%	

(1) Calculated by applying 2020 exchange rates to 2021 reported sales in regions outside the United States.

(2) Amounts for the first half of 2021 and 2020 include corporate general and administrative expenses not utilized by management in determining segment profitability as well as non-cash amortization expense of intangible assets in connection with the acquisitions of OGIO, TravisMathew and Jack Wolfskin. In addition, the amount for 2021 includes (i) $18.7 million of transaction, transition and other non-recurring costs associated with the merger with Topgolf completed on March 8, 2021, (ii) $8.4 million of non-cash amortization expense for intangible assets acquired in connection with the merger with Topgolf, combined with depreciation expense from the fair value step-up of Topgolf property, plant and equipment and amortization expense related to the fair value adjustments to Topgolf leases, and (iii) $1.5 million of costs related to the implementation of new IT systems for Jack Wolfskin. The amount for 2020 also includes (i) an impairment charge of $174.3 million related to Jack Wolfskin, (ii) $3.4 million of non-recurring costs associated with the Company's transition to the new North America Distribution Center, as well as costs related to the implementation of new IT systems for Jack Wolfskin, and (iii) $3.7 million of severance charges associated with workforce reductions due to the COVID-19 pandemic.

(3) Amount represents gain to step-up the Company's former investment in Topgolf to its fair value in connection with the merger. See Note 10 "Investments" in the Notes to Consolidated Condensed Financial Statements included in Part I, Item 1, of this Form 10-Q

Operating income for the golf equipment operating segment increased $95.2 million (108.4%) to $183.0 million for the six months ended June 30, 2021 from $87.8 million in the comparable period in the prior year. This increase was driven by a significant increase in revenue volume across all product categories as discussed above combined with the favorable impact of foreign currency exchange rates and favorable absorption of fixed overhead and operating expenses due to the higher revenue base period over period, in addition to a decrease in promotional and discounting activities. In addition, the Company's results for its golf equipment business in the first six months of 2021 were severely impacted by the business disruptions and challenges caused by the COVID-19 pandemic.

Operating income for the apparel, gear and other operating segment increased $51.7 million (333.1%) to $36.2 million for the six months ended June 30, 2021 from an operating loss of $15.5 million in the comparable period in the prior year. This increase was driven by a strong rebound in sales across all brands as discussed above, in addition to the favorable impact of foreign currency exchange rates, in addition to the favorable impact of leveraging fixed overhead and operating expenses on a higher revenue base period over period, a decrease in promotional activity, and an increase in direct-to-consumer e-commerce sales, which have higher profit margins relative to wholesale.

Topgolf contributed an incremental $28.2 million of operating income in the first six months of 2021, which represents approximately four months of operating results since the completion of the merger on March 8, 2021, and reflects the opening of four new domestic locations during the second quarter of 2021, and a higher level of customer engagement as venues welcomed guests back to all locations.

Financial Condition

The Company’s cash and cash equivalents increased $49.1 million to $415.2 million at June 30, 2021 from $366.1 million at December 31, 2020. This increase reflects the combined cash positions of the Company and Topgolf as a result of the merger completed on March 8, 2021. During the first six months of 2021, the Company used its cash provided by operations of $100.5 million, combined with proceeds of $18.4 million from the exercise of stock options in addition to proceeds of $24.8 million from lease financing arrangements, to fund capital expenditures of $120.8 million, repay $122.8 million of amounts outstanding under its credit and long-term debt facilities, and repurchase shares of its common stock for $12.5 million to satisfy payroll tax withholding obligations in connection with the vesting and settlement of employee restricted stock unit awards and performance share unit awards. Management expects to fund the Company’s future operations from current cash balances and cash provided by its operating activities, combined with borrowings under its current and future credit facilities as well as from other available sources of capital, as deemed necessary. See Note 7 "Financing Arrangements" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 and "Liquidity and Capital Resources" in Part I, Item 2 of this Form 10-Q for further information on the Company's credit facilities and the Term Loan Facility.

The Company’s accounts receivable balance fluctuates throughout the year as a result of the general seasonality of the Company’s business and is also affected by the timing of new product launches. With respect to the Company’s Golf Equipment business, the accounts receivable balance will generally be at its highest during the first and second quarters due to the seasonal peak in the golf season, and it will generally decline significantly during the third and fourth quarters as a result of an increase in cash collections and lower sales. The Company's Apparel, Gear and Other accounts receivable balances are expected to be higher during the second half of the year due to the seasonal nature of the Jack Wolfskin business, with a significant portion of its products geared toward the fall/winter season. On March 8, 2021, the Company completed its merger with Topgolf, which primarily records revenue and collects payment at point-of-sale for most of its venue business. Therefore, Topgolf's accounts receivable balance is smaller than the Company's other business segments and primarily consists of media sponsorship receivables. As of June 30, 2021, the Company’s net accounts receivable increased to $325.3 million from $138.5 million as of December 31, 2020. This increase reflects the Company's seasonality combined with incremental accounts receivable from the merger with Topgolf. The Company’s net accounts receivable as of June 30, 2021 increased $111.3 million compared to June 30, 2020 primarily due to an increase in net revenues of $616.6 million in the second quarter of 2021 compared to the second quarter of 2020 resulting from the continued increase in demand for golf equipment as the result of the increased popularity of golf combined with incremental revenues from the merger with Topgolf. In addition, sales in the second quarter of 2020 were more negatively impacted by the economic downturn caused by the COVID-19 pandemic.

The Company’s inventory balance fluctuates throughout the year as a result of the general seasonality of the Company’s business and is also affected by the timing of new product launches. With respect to the Company's Golf Equipment business, the buildup of inventory levels generally begins during the fourth quarter and continues heavily into the first quarter as well as into the beginning of the second quarter in order to meet demand during the height of the golf season. Inventory levels are also impacted by the timing of new product launches as well as the success of new products. Apparel, Gear and Other inventory levels start to build in the second quarter and continues into the third and fourth quarters due to the seasonal nature of the Company's Jack Wolfskin business, as many products are geared toward the fall/winter season. On March 8, 2021, the Company completed its merger with Topgolf, which is primarily a services business with lower inventory balances than the Company's other business segments, and primarily consists of food and beverage as well as retail merchandise and Toptracer inventory. The Company’s inventory decreased $17.2 million to $335.3 million as of

June 30, 2021 compared to $352.5 million as of December 31, 2020. This decrease was primarily due to the seasonal increase in demand of golf equipment in the first half of 2021 and the continued increase in demand for golf equipment as a result of the heightened popularity of golf, combined with the sell-through of close-out and end-of-life inventory. This increase was partially offset by the incremental inventory from the merger with Topgolf. The Company's inventory as of June 30, 2021 decreased by $43.8 million compared to the Company's inventory as of June 30, 2020 primarily due an increase in demand for golf equipment and golf accessories as the popularity of golf increased starting in the second half of 2020 through the second quarter of 2021, combined with the sell-through of close-out and end-of-life inventory. This decrease was partially offset by the addition of Topgolf inventory.

Liquidity and Capital Resources

The Company's principal sources of liquidity consist of its existing cash balances, funds expected to be generated from operations and funds from its credit facilities. Based upon the Company's current cash balances, its estimates of funds expected to be generated from operations, as well as from current and projected availability under its current or future credit facilities, the Company believes that it will be able to finance current and planned operating requirements, capital expenditures, required debt repayments and contractual obligations and commercial commitments for at least the next 12 months from the issuance date of this Form 10-Q.

The Company's ability to generate sufficient positive cash flows from operations is subject to many risks and uncertainties, including future economic trends and conditions, the future economic impact from the COVID-19 pandemic, demand for the Company's products, foreign currency exchange rates, and other risks and uncertainties applicable to the Company and its business (see "Risk Factors" contained in Part I, Item 1A of its Annual Report on Form 10-K for the year ended December 31, 2020). As of June 30, 2021, the Company had $876.8 million in cash and availability under its credit facilities, which is an increase of $393.7 million or 81% compared to June 30, 2020. Information about the Company's credit facilities and long-term borrowings is presented in Note 7 "Financing Arrangements" to the Notes to Consolidated Condensed Financial Statements included in Part I, Item 1 of this Form 10-Q, which is incorporated herein by this reference.

On March 8, 2021, the Company completed the merger with Topgolf in an all-stock transaction (see Note 6 "Business Combinations" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q). In connection with the merger with Topgolf, the Company acquired cash of $171.3 million and assumed $535.1 million in long-term debt. The Company believes that with its continued strong cash generation and increased liquidity, its geographic diversity and the strength of its brands, it will be able to fund Topgolf's growth while meeting its other financial obligations.

As of June 30, 2021, approximately 37.7% of the Company's cash was held in regions outside of the United States. The Company continues to maintain its indefinite reinvestment assertion with respect to most jurisdictions in which it operates because of local cash requirements to operate its business. If the Company were to repatriate cash to the United States outside of settling intercompany balances, it may need to pay incremental foreign withholding taxes which, subject to certain limitations, generate foreign tax credits for use against the Company's U.S. tax liability, if any. Additionally, the Company may need to pay certain state income taxes.

Other Significant Cash and Contractual Obligations

The table below summarizes certain significant cash obligations as of June 30, 2021 that will affect the Company's future liquidity.

	Payments Due By Period				
	Total	**Remainder of 2021**	**2022 - 2023**	**2024 - 2025**	**Thereafter**
	(in millions)				
Japan Term Loan Facility (1)	$ 15.3	$ 1.8	$ 7.2	$ 6.3	$ —
Interest on Japan Term Loan Facility	0.3	0.1	0.1	0.1	—
Term Loan B Facility (2)	439.2	2.4	9.6	9.6	417.6
Interest on Term Loan Facility	96.1	10.9	43.0	36.8	5.4
Topgolf Term Loan (3)	342.1	1.8	7.0	7.0	326.3
Topgolf Revolving Credit Facility (3)	50.0	—	—	50.0	—
Convertible Notes (4)	258.8	—	—	—	258.8
Equipment Notes (5)	27.7	4.2	14.7	6.9	1.9
Interest on Equipment Notes	1.5	0.4	0.9	0.2	—
Mortgage Loans (6)	46.6	0.2	1.1	1.3	44.0
Financed Tenant Improvements	3.7	0.1	0.4	0.4	2.8
ABL Facility (7)	21.4	21.4	—	—	—
Finance leases, including imputed interest (8)	3.0	0.6	2.0	0.4	—
Operating leases, including imputed interest (9)	2,165.8	67.6	296.7	286.5	1,515.0
Deemed landlord financing leases (10)	515.5	9.8	46.3	46.9	412.5
Minimum lease payments for leases signed but not yet commenced (11)	896.8	24.0	92.6	93.2	687.0
Capital commitments (12)	178.0	77.0	101.0	—	—
Unconditional purchase obligations (13)	96.2	40.9	54.4	0.9	—
Uncertain tax contingencies (14)	4.4	0.7	1.4	1.1	1.2
Total	$ 5,162.4	$ 263.9	$ 678.4	$ 547.6	$ 3,672.5

(1) In August 2020, the Company entered into the Japan Term Loan Facility for 2,000,000,000 Yen (or approximately U.S. $18,000,000 using the exchange rate in effect as of June 30, 2021). For further discussion, see Note 7 "Financing Arrangements" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

(2) In January 2019, to fund the purchase price of the Jack Wolfskin acquisition, the Company entered into a Credit Agreement, which provides for a Term Loan B facility in an aggregate principal of $480.0 million, which was issued less $9.6 million in an original issue discount and other transaction fees. For further discussion, see Note 7 "Financing Arrangements" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

(3) In connection with the merger with Topgolf on March 8, 2021, the Company assumed a $350.0 million term loan facility (the "Topgolf Term Loan"), and a $175.0 million revolving credit facility with JPMorgan Chase Bank, N.A (the "Topgolf Revolving Credit Facility"), both with JPMorgan Chase Bank, N.A. For further discussion, see Note 7 "Financing Arrangements" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

(4) In May 2020, the Company issued $258.8 million of 2.75% Convertibles Notes, which mature on May 1, 2026 unless earlier redeemed or repurchased by the Company or converted. For further discussion, see Note 7 "Financing Arrangements" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

(5) Between December 2017 and August 2020, the Company entered into four long-term financing agreements (the "Equipment Notes") with Bank of America N.A. and other lenders to invest in its golf ball manufacturing facility in Chicopee, Massachusetts, its North American Distribution Center in Roanoke, Texas, and in corporate IT equipment. The loans are secured by the underlying equipment at each facility and the IT equipment. For further discussion, see

Note 7 "Financing Arrangements" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

(6) In connection with the merger with Topgolf on March 8, 2021, the Company assumed three mortgage loans related to the construction of three venues. For further discussion, see Note 7 "Financing Arrangements" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

(7) The Company has a senior secured asset-based revolving credit facility of up to $400.0 million (the "ABL Facility) subject to borrowing base availability. The amounts outstanding under the ABL Facility are secured by certain assets, including cash (to the extent pledged by the Company), certain intellectual property, certain eligible real estate, inventory and accounts receivable of the Company’s subsidiaries in the United States, Germany, Canada and the United Kingdom. For further discussion, see Note 7 "Financing Arrangements" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

(8) Amounts represent future minimum payments under financing leases. At June 30, 2021, finance lease liabilities of $1.2 million were recorded in accounts payable and accrued expenses and $1.7 million were recorded in other long-term liabilities in the accompanying consolidated condensed balance sheets. For further discussion, see Note 3 "Leases" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

(9) The Company leases certain manufacturing facilities, distribution centers, warehouses, office facilities, vehicles and office equipment under operating leases. The amounts presented in this line item represent commitments for minimum lease payments under non-cancelable operating leases. At June 30, 2021, short-term and long-term operating lease liabilities of $55.5 million and $1,174.8 million, respectively, were recorded in the accompanying consolidated condensed balance sheets. For further discussion, see Note 3 "Leases" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

(10) In connection with the merger with Topgolf on March 8, 2021, the Company assumed certain deemed landlord financed leases in connection with the construction of Topgolf venue facilities. At June 30, 2021, the short-term and long-term obligations under these leases were $0.5 million and $263.2 million, respectively. For further discussion, see Note 3 "Leases" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

(11) Amount represents the future minimum lease payments under lease agreements related to future Topgolf facilities that have not yet commenced as of June 30, 2021. For further discussion, see Note 3 "Leases" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

(12) Amount represents capital expenditure commitments under lease agreements for Topgolf venues under construction that have been signed as of June 30, 2021.

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

(14) Amount represents the current and non-current portions of uncertain income tax positions as recorded on the Company's consolidated condensed balance sheets as of June 30, 2021. Amounts exclude uncertain income tax positions that the Company would be able to offset against deferred taxes. For further discussion, see Note 13 “Income Taxes” to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company’s customers and licensees in connection with the use, sale and/or license of Company products or trademarks, (ii) indemnities to various lessors in connection with facility leases for certain claims arising from such facilities or leases, (iii) indemnities to vendors and service providers pertaining to the goods or services provided to the Company or based on the negligence or willful misconduct of the Company, and (iv) indemnities involving the accuracy of representations and warranties in certain contracts. In addition, the Company has made contractual commitments to each of its officers and certain other employees providing for severance payments upon the termination of employment. The Company has also issued guarantees in the form of a standby letter of credit primarily as security for contingent liabilities under certain workers’ compensation insurance policies.

The duration of these indemnities, commitments and guarantees varies, and in certain cases may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum amount of future payments the Company could be obligated to make. Historically, costs incurred to settle claims related to indemnities have not been material to the Company’s financial position, results of operations or cash flows. In addition, the Company believes the likelihood is remote that payments under the commitments and guarantees described above will have a material effect on the Company’s financial condition. The fair value of indemnities, commitments and guarantees that the Company issued during the three and six months ended June 30, 2021 was not material to the Company’s financial position, results of operations or cash flows.

In addition to the contractual obligations listed above, the Company’s liquidity could also be adversely affected by an unfavorable outcome with respect to claims and litigation that the Company is subject to from time to time (see Note 14 “Commitments & Contingencies” to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 and “Legal Proceedings” in Part II, Item 1 of this Form 10-Q).

Capital Expenditures

The Company has certain capital expenditure commitments under lease agreements for Topgolf venues that have been signed as of June 30, 2021. Estimated capital expenditures for the year ending December 31, 2021 in connection with these leases total approximately $143.1 million. In addition, in 2021, the Company expects to have additional capital expenditures of approximately $100.1 million for the Callaway legacy business and Topgolf, combined. Total estimated capital expenditures are expected to be approximately $243.2 million for the year ended December 31, 2021.

Off-Balance Sheet Arrangements

The Company has no material off-balance sheet arrangements as defined in Regulation S-K Item 303(a)(4)(ii).

Critical Accounting Policies and Estimates

Due to the recent merger with Topgolf, the Company updated its significant accounting policies. For an update to the Company’s significant accounting policies and estimates from the information provided in Part II, Item 8, “Financial Statements and Supplementary Data” included in the Company's Form 10-K for the fiscal year ended December 31, 2020, see Note 2 “Summary of Significant Accounting Policies” in the Notes to the Consolidated Condensed Financial Statements in Part I, Item I of this Form 10-Q.

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

The Company uses derivative financial instruments to mitigate its exposure to changes in foreign currency exchange rates and interest rates. Transactions involving these financial instruments are with creditworthy banks, primarily banks that are party to the Company's credit facilities (see Note 7 "Financing Arrangements" to the Notes to Consolidated Condensed Financial Statements in Part 1, Item 1 of this Form 10-Q). 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.

Foreign Currency Fluctuations

Information about the Company's foreign currency hedging activities is set forth in Note 17 “Derivatives and Hedging,” to the Notes to Consolidated Condensed Financial Statements included in Part I, Item 1, of this Form 10-Q, which is incorporated herein by this reference.

As part of the Company's risk management procedure, a sensitivity analysis model is used to measure the potential loss in future earnings of market-sensitive instruments resulting from one or more selected hypothetical changes in interest rates or foreign currency values. The sensitivity analysis model quantifies the estimated potential effect of unfavorable movements of 10% in foreign currencies to which the Company was exposed at June 30, 2021 through its foreign currency forward contracts.

At June 30, 2021, the estimated maximum loss from the Company's foreign currency forward contracts, calculated using the sensitivity analysis model described above, was $22.5 million. The Company believes that such a hypothetical loss from its foreign currency forward contracts would be partially offset by increases in the value of the underlying transactions being hedged.

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

Interest Rate Fluctuations

The Company is exposed to interest rate risk from its credit facilities and long-term borrowing commitments. Outstanding borrowings under these credit facilities and long-term borrowing commitments accrue interest as described in Note 7 "Financing Arrangements" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1, and in "Liquidity and Capital Resources" in Part I, Item 2 of this Form 10-Q. The Company's long-term borrowing commitments are subject to interest rate fluctuations, which could be material to the Company's cash flows and results of operations. In order to mitigate this risk, the Company enters into interest rate hedges as part of its interest rate risk management strategy. Information about the Company's interest rate hedges is provided in Note 17 "Derivatives and Hedging" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q. In order to determine the impact of unfavorable changes in interest rates on the Company's cash flows and results of operations, the Company performed a sensitivity analysis as part of its risk management procedures. The sensitivity analysis quantified that the incremental expense incurred by a 10% increase in interest rates would be $0.1 million over the 12-month period ending on June 30, 2021.

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness, as of June 30, 2021, of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2021.

Changes in Internal Control over Financial Reporting. On March 8, 2021, the Company completed its merger with Topgolf. See Note 6 "Business Combinations" to the Notes to Consolidated Condensed Financial Statements in Part I, Item 1 of this Form 10-Q. The Company is in the process of integrating the Topgolf business and evaluating its internal controls over financial reporting. As a result of these integration activities, certain controls will be evaluated and may be revised. In addition, the Company is implementing a new version of its existing enterprise resource planning ("ERP") system on a worldwide basis, which is expected to improve the efficacy of certain financial and related transaction processes. During the second quarter of 2021, the Company completed the implementation of the new ERP system at its subsidiaries in Germany, China, Korea and Japan. The implementation is expected to progress in phased launches across the Company's organization over the next several years. As the phased implementation of the ERP system advances, the Company appropriately considered its controls over financial reporting within the testing for effectiveness with respect to the implementation. The Company concluded as part of its evaluation described above, that the implementation of the ERP system has not materially affected its internal controls over financial reporting during the quarter ended June 30, 2021. As the implementation continues, the Company's internal processes, procedures and controls will be refined as appropriate. There were no other changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

The information set forth in Note 14 “Commitments & Contingencies,” to the Notes to Consolidated Condensed Financial Statements included in Part I, Item 1, of this Form 10-Q, is incorporated herein by this reference.

Item 1A. ***Risk Factors***

Certain Factors Affecting Callaway Golf Company

The Company has included in Part I, Item 1A of its Annual Report on Form 10-K for the year ended December 31, 2020, a description of certain risks and uncertainties that could affect the Company’s business, future performance or financial condition (the “Risk Factors”). Investors should consider the Risk Factors prior to making an investment decision with respect to the Company’s stock. There are no material changes from the disclosure provided in the Form 10-K for the year ended December 31, 2020 with respect to the Risk Factors, other than as previously reported in Part II, Item 1A of the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2021, which are incorporated herein by this reference.

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

Stock Purchases

In July 2019, the Board of Directors authorized $100.0 million share repurchase program (the "2019 Repurchase Program"), under which the Company is authorized to repurchase shares of its common stock in the open market or in private transactions, subject to the Company's assessment of market conditions and buying opportunities. Repurchases under the 2019 Repurchase Program are made consistent with the terms of the Company's ABL Facility and long-term debt, which limits the amount of stock that can be repurchased. Although the 2019 Repurchase Program will remain in effect until completed or until terminated by the Board of Directors, the Company has temporarily suspended the 2019 Repurchase Program. The Company has the ability to resume purchases if it deems circumstances warrant it.

The following table summarizes the purchases by the Company during the second quarter of 2021. These repurchases represent the number of shares the Company withheld to satisfy payroll tax withholding obligations in connection with the vesting and settlement of employee restricted stock unit awards and performance share unit awards. The Company’s repurchases of shares of common stock are recorded at cost and result in a reduction of shareholders’ equity.

	Three Months Ended June 30, 2021			
	Total Number of Shares Purchased	**Weighted Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Program**	**Maximum Dollar Value that May Yet Be Purchased Under the Program**
	(in thousands, except per share data)			
April 1, 2021-April 30, 2021	6	$ 27.52	—	$ 77,379
May 1, 2021-May 31, 2021	—	$ —	—	$ 77,379
June 1, 2021-June 30, 2021	3	$ 35.23	—	$ 77,369
Total	9	$ 30.06	—	$ 77,369

Item 3. ***Defaults upon Senior Securities***

None.

Item 4. ***Mine Safety Disclosures***

None

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

3.1	Certificate of Amendment to the Certificate of Incorporation of Callaway Golf Company, incorporated herein by this reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Commission on May 20, 2021 (file no. 1-10962).
3.2	Second Restated Certificate of Incorporation of Callaway Golf Company, 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 May 20, 2021 (file no. 1-10962).
3.3	Seventh Amended and Restated Bylaws of Callaway Golf Company, incorporated herein by this reference to Exhibit 3.4 to the Company's Current Report on Form 8-K, as filed with the Commission on May 14, 2020 (file no. 1-10962).
10.1	Officer Employment Agreement, effective April 5, 2021, by and between Topgolf International, Inc. and Arthur Starrs. †
31.1	Certification of Oliver G. Brewer III pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. †
31.2	Certification of Brian P. Lynch pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. †
32.1	Certification of Oliver G. Brewer III and Brian P. Lynch pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. †
101.1	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.2	XBRL Taxonomy Extension Schema Document †
101.3	XBRL Taxonomy Extension Calculation Linkbase Document †
101.4	XBRL Taxonomy Extension Definition Linkbase Document †
101.5	XBRL Taxonomy Extension Label Linkbase Document †
101.6	XBRL Taxonomy Extension Presentation Linkbase Document †
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) †

(†) Included with this Report.

SIGNATURES

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

CALLAWAY GOLF COMPANY

By: /s/ Jennifer Thomas

Jennifer Thomas
Vice President and
Chief Accounting Officer

Date: August 9, 2021

Exhibit 10.7

CALLAWAY GOLF COMPANY
OFFICER EMPLOYMENT AGREEMENT

This Officer Employment Agreement ("Agreement") is entered into as of April 5, 2021 (the "Effective Date") by and between Topgolf International, Inc., a Delaware corporation, (the "Company") and Arthur Starrs ("Employee").

1. TERM. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the period commencing April 5, 2021 and terminating on April 4, 2022. On April 5, 2022, and on April 5th each year thereafter, the Agreement shall renew for an additional one-year term unless the Company provides notice to the Employee that it is not renewing the Agreement. Upon non-renewal of the Agreement, Employee will become an employee at will unless the Agreement is terminated as provided in Section 7 below. At all times during the term of this Agreement, 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.

2. TITLE. Employee shall serve as Chief Executive Officer of the Company. Employee's duties shall be the usual and customary duties of the offices in which Employee serves. Employee shall report to the Chief Executive Officer of Callaway Golf Company ("Callaway") or such other person as the Chief Executive Officer of Callaway shall designate from time to time. The Board of Directors and/or the Chief Executive Officer of Callaway may change employee's title, position and/or duties at any time.

3. SERVICES TO BE EXCLUSIVE. Employee agrees to devote Employee's full productive time and best efforts to the performance of Employee's duties hereunder pursuant to the supervision and direction of Callaway's Board of Directors, its Chief Executive Officer or their designee. 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, 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. Nothing herein contained shall be deemed to preclude Employee from having outside personal investments and involvement with appropriate community or charitable activities, or 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) Base Salary. In accordance with the Company's usual review and pay practices, the Company agrees to pay Employee a base salary of no less than $750,000 per year (prorated for any partial years of employment), payable in equal installments on regularly scheduled Company pay dates. Employee agrees that the Company may increase Employee's base salary without requiring an amendment of this Agreement through the use ota Personnel Action Notice or similar documentation.

(b) Annual Incentive. The Company shall provide Employee an opportunity to earn an annual incentive payment based upon participation in the Company's applicable incentive plan as it may or may not exist from time to time. Employee's incentive target percentage is eighty-five percent (85%) of Employee's annual base salary. Any annual incentive payment earned pursuant to an applicable incentive plan shall be payable in the first quarter of the following year.

(c) Long-Term Incentive. The Company shall provide Employee an opportunity to participate in the Company's applicable long term incentive program as it may or may not exist from time to time. For 2021, Employee shall be granted the following equity awards:

(a) An annual incentive award consisting of (i) 23,204 restricted stock units which shall be scheduled to vest in three equal annual installments on the first three anniversaries of the grant date and otherwise shall be upon the terms of the Callaway form of restricted stock unit grant agreement for other senior executives of the Company and (ii) 28,360 performance share units which shall be scheduled to vest on the third anniversary of the grant date and otherwise shall be upon the terms of the Callaway form of performance share unit agreement for other senior executives of the Company and with the same Callaway consolidated performance goals as granted to other senior executives of the Company.

(b) A one-time special incentive award consisting of (i) 54, 142 restricted stock units which shall be scheduled to vest in three equal annual installments on the first three anniversaries of the grant date and otherwise shall be upon the terms of the Callaway form of restricted stock unit grant agreement for other senior executives of the Company and (ii) 66, 174 performance share units which shall be scheduled to vest on the third anniversary of the grant date and otherwise shall be upon the terms of the Callaway form of performance share unit agreement for other senior executives of the Company and with the same Topgolf performance goals as granted to other senior executives of the Company.

5. EXPENSES AND BENEFITS.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4, 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 in accordance with the policies and procedures set by the Company from time to time 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 Callaway's Chief Executive Officer.

(b) Paid Time Off. Employee shall accrue paid time off in accordance with the terms and conditions of the Company's Paid Time Off Program, as may be modified from time to time. Unless and until the Company implements an unlimited paid time off program, and subject to the maximum accrual permitted under the Paid Time Off Program, Employee shall accrue paid time off at the rate of twenty-five (25) days per year. The time off may be taken any time during the year subject to prior approval by Callaway's Chief Executive Officer. The Company reserves the right to pay Employee for unused, accrued benefits in lieu of providing time off in accordance with the Company's policies with respect to unused Paid Time Off.

(c) Insurance/Death Benefit. During Employee's employment with the Company pursuant to this Agreement, the Company shall provide the following:

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

(ii) Subject to all applicable laws, and satisfaction of the conditions set forth below, Employee may be eligible for an additional disability benefit if 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 six (6) months or more on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three (3) 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 that Employee is declared permanently disabled (the "Permanent Disability Date"), then Employee shall be entitled to (i) any compensation accrued and unpaid as of the Permanent Disability Date; (ii) a cash payment based on the incentive payment Employee would have received in light of the Company's actual performance as measured against the requirements of the annual incentive plan and pro-rated to the date of Employee's Permanent Disability Date; (iii) a lump sum payment equal to six (6) months of Employee's then current base salary at the same rate as in effect on the Permanent Disability Date; (iv) the vesting of all unvested long-term incentive compensation awards (e.g., restricted stock units, performance shares, stock appreciation rights, stock options, and other long-term equity-based incentive awards) held by Employee that would have vested had Employee continued to perform services pursuant to this Agreement for a period of twelve(12) months from the Permanent Disability Date; (v) subject to Subsection 7(b)(ii) below, the payment of premiums owed for COBRA insurance benefits for a period of twelve (12) months from the Permanent Disability Date; and (vi) no other payments. The payment of the benefits described in (i) and (iii) of this subsection, as well as any vested time-based long-term incentive compensation awards described in (iv) of this subsection, shall be made as soon as administratively practicable following the Permanent Disability Date, but in no event later than seventy (70) days after the Permanent Disability Date; the payment of any benefits described in (ii) of this subsection, as well as any performance-based long-term incentive compensation awards described in (iv) of this subsection, shall be paid after the completion of the relevant performance period and the evaluation of whether, and the degree to which, the performance criteria have been met. The payment of this benefit shall not eliminate Employee's right to permanent disability insurance benefits if the Employee so qualifies, and shall not eliminate the right of the Company to terminate Employee's employment (e.g., a termination for substantial cause pursuant to Subsection 7(e)) without any further payment pursuant to this Agreement. Employee agrees that the Company shall be entitled to take as an offset against any amounts to be paid pursuant to this subsection any amounts received by Employee pursuant to disability or other insurance or similar income sources provided by the Company; and

(iii) Employee shall be entitled to participate in the Company's executive life insurance program provided that Employee completes the required health statement and application and that Employee's physical condition does not prevent Employee from qualifying for such insurance coverage under reasonable terms and conditions.

(iv) In the event of Employee's death, all outstanding unvested service- based full value long-term incentive awards (e.g., restricted stock units and phantom stock units) held by Employee shall immediately vest.

(d) Retirement. Employee shall be permitted to participate in the Company's 401(k) retirement investment plan pursuant to the terms of such plan, as the same may be modified from time to time, to the extent such plan is offered to other officers of the Company.

(e) Financial Plannino. Annual Executive Physical. Golf Expense Reimbursement Program and Other Perquisites. To the extent Callaway provides financial, tax and estate planning and related services, annual executive physicals, and golf expense reimbursements, to other executive officers generally from time to time, such services and perquisites shall be made available to Employee substantially on the same terms and conditions.

6. TAXES. Employee acknowledges that Employee is responsible for all taxes, including imputed income taxes related to Employee's compensation and benefits, except for those taxes for which the Company is obligated to pay under applicable law or regulation. Employee agrees that the Company may withhold from Employee's

compensation any amounts that the Company is required to withhold under applicable law or regulation.

7. TERMINATION OF EMPLOYMENT .

(a) Termination by the Company Without Substantial Cause , or by Employee for Good Reason or Non-Renewal. Employee's employment under this Agreement may be terminated by the Company at any time without substantial cause. Employee's employment under this Agreement may also be terminated by Employee for Good Reason or Non-Renewal. "Good Reason" shall mean (i) a material breach of this Agreement by the Company and (ii) 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 Employee had as of the Effective Date of this Agreement. "Non-Renewal" shall mean the Company gives notice of non renewal of this Agreement , as described in Section 1 above, and does not offer Employee a new or amended written employment agreement that is on substantially the same or better terms as this Agreement. In the event of a termination by the Company Without Substantial Cause, or by Employee for Good Reason or Non-Renewal, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) a cash payment based on the annual incentive payment Employee would have received in the then-current year in light of the Company's actual performance as measured against the requirements of the annual incentive plan, pro-rated to the date of Employee's termination (the "Pro-Rata Incentive Plan Payment"); and (iii) the vesting of all unvested long-term incentive compensation awards (e.g., restricted stock units, performance shares, stock appreciation rights, stock options, and other long-term equity based incentive awards) held by Employee that would have vested had Employee continued to perform services pursuant to this Agreement for a period of twelve (12) months from the date of termination; provided that any unvested long-term incentive compensation awards that are subject to performance-based vesting will vest only if, and to the degree that, the performance goals are satisfied. The payment of the benefits described in (i) of this subsection as well as any vested time-based long-term incentive compensation awards described in (iii) of this subsection shall be made as soon as administratively practicable following the date of termination. The payment of any benefits described in (ii) of this subsection as well as any performance-based long-term incentive compensation awards described in (iii) of this subsection shall be paid after the completion of the relevant performance period and the evaluation of whether, and the degree to which, the performance criteria have been met. In addition to the foregoing and subject to the provisions thereof, Employee shall be eligible to receive Special Severance as described in Subsection 7(b) and Incentive Payments as described in Subsection 7(c).

(i) Conditions on Termination by Employee for Good Reason or Non- Renewal. In the event that Employee seeks to terminate this Agreement for Good Reason or Non-Renewal, the following notice procedures shall apply:

1. Good Reason - Within ninety (90) days of the date Employee knows, or should have known, that Employee is entitled to terminate this Agreement for Good Reason, as defined above, Employee shall notify the Company in writing of the Good Reason and Employee's intent to terminate the Agreement no earlier than thirty (30) days later. Company shall then have thirty (30) days to cure the condition underlying Employee's notice or inform Employee, in writing, of its intent not to do so. If Company fails to cure the condition, or states that it does not intend to attempt to cure the condition underlying Employee's notice, then Employee shall then have the right to terminate for Good Reason no later than ninety (90) days following the expiration of the cure period or the written statement of intent not to cure.

2. Non-Renewal - At least sixty (60) days prior to the expiration of this Agreement, the Company shall notify Employee in writing of Non-Renewal, as defined above. Within thirty (30) days of delivery of the written notice of Non-Renewal, the Company shall provide Employee with a new or amended employment agreement or inform Employee in writing that it does not intend to offer Employee a new employment agreement. Employee shall then have the option, for forty-five (45) days following expiration of the Agreement, to notify the Company, in writing, of Employee's intent to terminate Employee's employment for Non-Renewal.

(b) Special Severance. In the event of a termination pursuant to Subsection 7(a) of this Agreement, Special Severance shall consist of a total amount equal to 0.500 times the sum of Employee's most recent annual base salary and annual target incentive, payable in equal installments on the same pay schedule as in effect at the time of termination over a period of twelve (12) months from the date of termination. Employee shall also be entitled to the payment of premiums owed for COBRA insurance benefits and the continuation of the financial, tax and estate planning services (on the then-existing terms and conditions) through the period during which Employee is receiving Special Severance. In addition, the Company shall offer to provide, at Company expense, up to one (1) year of outplacement services through a professional outplacement firm of the Company's choosing.

(i) Conditions on Receiving 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 Employee's continued compliance with the terms and conditions of Sections 8 and 11; Employee's continued forbearance from directly, indirectly or in any other way, disparaging the Company, its officers or employees, vendors, customers, products or activities, or otherwise interfering with the Company's press, public and media relations; and Employee's execution, prior to receiving any Special Severance, of an effective release in the form attached hereto as Exhibit B within the time period set forth therein (but in no event later than sixty (60) days after the date of termination of employment). Additionally, none of the Special Severance benefits will be paid or otherwise delivered prior to the effective date of the release, so that amounts otherwise payable prior to the release effective date will accrue and be paid as soon as administratively practicable, except as required by Subsection 7(h) below. Employee agrees that payment of Special Severance pursuant to this subsection shall be in lieu of, and not in addition to, any other payment that Employee might otherwise be entitled to, including, but not limited to, payments under any state or federal Worker Adjustment and Retraining Notification Act, any similar statute, or as provided for under common law.

(ii) Payment in lieu of COBRA. Notwithstanding anything else to the contrary, if the Company determines, in its sole discretion, that the Company cannot provide COBRA premium benefits under this Agreement without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall, in lieu thereof, pay Employee a taxable cash amount, which payment shall be made if Employee has elected health care continuation coverage (the "Health Care Benefit Payment"). If applicable, the Health Care Benefit Payment shall be paid in a single lump sum as soon as administratively practicable following the effective date of the release signed by Employee, but in no event later than seventy (70) days after the date of termination of employment or the Permanent Disability Date, as applicable. The Health Care Benefit Payment shall be equal to the amount that the Company would have otherwise paid for COBRA insurance premiums (at the level of healthcare benefits Employee and Employee's dependents are enrolled in as of the termination date) calculated based on the premium for the first month of coverage.

(c) Incentive Payments. In the event of a termination pursuant to Subsection 7(a) of this Agreement, Employee shall also be offered the opportunity to receive Incentive Payments in a total amount equal to 0.500 times the sum of Employee's most recent annual base salary and target incentive, payable in equal installments on the same pay schedule in effect at the time of termination over a period of twelve (12) months from the date of termination.

(i) Terms and Conditions for Incentive Payments. Employee may receive Incentive Payments so long as Employee chooses not to engage (whether as an owner, employee, agent, consultant, or in any other capacity) in any business or venture that competes with the business of the Company or any of its affiliates. If Employee chooses to engage in such activities, then the Company shall have no obligation to make further Incentive Payments commencing upon the date which Employee chooses to do so.

(ii) Sole Consideration. Employee and the Company agree and acknowledge that the sole and exclusive consideration for the Incentive Payments is Employee's forbearance as described in Subsection 7(c)(i) above. In the event that Subsection 7(c)(i) is deemed unenforceable or invalid for any reason, then the Company will have no obligation to make Incentive Payments for the period of time during which it has been deemed unenforceable or invalid. The obligations and duties of this Subsection 7(c) shall be separate and distinct from the other obligations and duties set forth in this Agreement, and any finding of invalidity or unenforceability of this

Subsection 7(c) shall have no effect upon the validity or invalidity of the other provisions of this Agreement.

(d) Treatment of Special Severance and Incentive Payments. Any Special Severance and Incentive Payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements.

(e) Termination by the Company for Substantial Cause or by Employee Without Good Reason. Employee's employment under this Agreement may be terminated immediately and at any time by the Company for substantial cause or by Employee without good reason. In the event of such a termination, 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 Employee's (1) failure to substantially perform Employee's duties; (2) material breach of this Agreement; (3) misconduct, including but not limited to, use or possession of illegal drugs during work and/or any other action that is damaging or detrimental in a significant manner to the Company; (4) conviction of, or plea of guilty or nolo contendere to, a felony; or (5) failure to cooperate with, or any attempt to obstruct or improperly influence, any investigation authorized by the Board of Directors or any governmental or regulatory agency.

(f) 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.

(g) Other. Except for the amounts specifically provided pursuant to this Section 7, Employee shall not be entitled to any further compensation, incentive, damages, restitution, relocation benefits, or other severance benefits upon termination of employment. The amounts payable to Employee pursuant to these Sections shall not be treated as damages, but as compensation to which Employee may be 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 pursuant to this Section 7 any amounts earned by Employee in other employment after termination of Employee's 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 7 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company regarding any pension, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(h) Compliance with Section 409A. Each installment of severance benefits is a separate "payment" for purposes of Section 409A of the Internal Revenue Code of 1986 and the regulations governing Section 409A (collectively "Section 409A"), and the severance benefits are intended to satisfy the exemptions under Section 409A. It is intended that if Employee is a "specified employee" within the meaning of Section 409A at the time of a separation from service, then, to the extent necessary, the severance benefits will not be paid until at least six (6) months after separation from service.

(i) Pre-Termination Rights. The Company shall have the right, at its option, to require Employee to vacate Employee's 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.

(j) Forfeiture.

(i) If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of the intentional misconduct or gross negligence of the Employee, with any financial reporting requirement under the United States securities laws, then the Employee shall forfeit and reimburse the Company for all of the following: (i) any incentive or incentive compensation paid based upon such erroneously stated financial information, (ii) any incentive or incentive compensation or equity compensation received by Employee during the twelve (12) month period following the earlier of the first public issuance or filing with the SEC of the financial document embodying the financial reporting requirement, (iii) any profits realized from the sale of Company securities during that same twelve (12) month period, (iv) if Employee is terminated or has been terminated, the right to receive Special Severance and Incentive Payments, and (v) if Employee is terminated or has been terminated, any unvested and/or unexercised long-term incentive compensation awards.

(ii) If the Employee is one of the persons subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002 (i.e. the Chief Executive Officer or Chief Financial Officer) and the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct (within the meaning of said Section 304, but other than as a result of Employee's intentional misconduct or gross negligence, which is governed by the preceding subsection}, with any financial reporting requirement under the United States securities laws, then the Employee shall forfeit and reimburse the Company for all of the following: (i) any incentive or incentive compensation or equity compensation received by Employee during the twelve (12) month period following the earlier of the first public issuance or filing with the SEC of the financial document embodying the financial reporting requirement and (ii) any profits realized from the sale of Company securities during that same twelve (12) month period.

(iii) Employee acknowledges that Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, among other things, requires the United States Securities and Exchange Commission to direct the national securities exchanges to prohibit the continued listing of the securities of an issuer unless the issuer develops and implements a policy providing, among other things, for the recovery of certain erroneously awarded compensation. Upon the Company's adoption of such a policy, Employee agrees that this Agreement shall be automatically amended without any further consideration to incorporate the recovery provisions set forth in the policy. Upon the request of the Company, Employee agrees without further consideration to execute an amendment evidencing the incorporation of said provisions into this Agreement.

(iv) No forfeiture or recovery of compensation under this subsection U) shall constitute an event giving rise to Employee's right to terminate this Agreement for Good Reason.

8. OTHER EMPLOYEE DUTIES AND OBLIGATIONS.

In addition to any other duties and obligations set forth in this Agreement, Employee shall be obligated as follows:

(a) Compliance. 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, including, but not limited to, the Company's Code of Conduct. While employed by the Company pursuant to this Agreement, or while receiving severance, incentive or other payments or consideration from the Company following termination of this Agreement, Employee shall disclose in writing to the Company's General Counsel any conviction of, or plea of guilty or nolo contendere to, a felony.

(b) Trade Secrets and Confidential Information.

(i) 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 concepts, ideas, plans and strategies involved in the Company's and/or its affiliates' products, the processes, formulae and techniques disclosed by the Company and/or its affiliates to Employee or observed by Employee, 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 third party information which the Company and/or its affiliates has/have agreed to keep confidential.

(ii) While employed by the Company, Employee will have access to and become familiar with Trade Secrets and Confidential Information. Employee acknowledges that 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 make disclosure 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.

(iii) Employee 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.

(iv) The provisions of this Subsection 8(b) shall survive the termination of this Agreement and shall be binding upon Employee in perpetuity.

(c) Assignment of Rights.

(i) 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.

(ii) 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.

(iii) Employee agrees to disclose in writing to the Chief Executive Officer of Callaway 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 Employee is required under this Agreement, or pursuant to applicable law, to assign Employee's 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.

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

(v) 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.

(vi) The provisions of this Subsection 8(c) shall survive the termination of this Agreement and shall be binding upon Employee in perpetuity.

(d) Competing Business. To the fullest extent permitted by law, Employee agrees that, while employed by the Company and for one (1) year thereafter, Employee shall not directly or indirectly own any interest in, manage, control, participate in (whether as an officer, director, manager, employee, partner, equityholder, member, agent, representative or otherwise), consult with, or otherwise render services for any entity that is a direct competitor of the Company (i.e. offers the same or substantially similar products or services as the Company or any of its subsidiaries) within any state, province or region (whether in the United States or in any country) in which the Company or its subsidiaries and affiliates conducts such business as of the date of termination of Executive's employment. 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.

(e) Other Employees. Except as may be required in the performance of Employee's 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. This obligation shall remain in effect while Employee is employed by the Company and for a period of one (1) year thereafter.

(f) Suppliers and Other Business Contacts. 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 (including any supplier, licensee, licensor, lender, landlord or other business relation of the Company and/or any of its affiliates) to terminate or diminish its relationship with them.

(g) Conflict of Interest. While employed by the Company, Employee shall comply with all Company policies regarding actual or apparent conflicts of interest with respect to Employee's duties and obligations to the Company.

(h) Non-Disparagement. 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.

(i) Enforcement. Employee acknowledges that he has carefully read and considered all the terms and conditions of this Agreement, including the restraints imposed upon him pursuant to this Section 8. Employee agrees that each of the restraints contained herein are necessary for the protection of the goodwill, Trade Secrets and Confidential Information and other legitimate interests of the Company; that each and every one of these restraints is reasonable in respect to its subject matter, length of time and geographic area; and that these restraints, individually or in the aggregate, will not prevent him from obtaining other suitable employment during the period in which the Employee is bound by such restraints. Employee further acknowledges that, were he to breach any of the covenants contained in this Section 8, the damage to the Company would be irreparable. Employee therefore agrees that the Company, in addition to any other remedies available to it, shall be entitled to injunctive relief against any breach or threatened breach by the Employee of any of said covenants. If at the time of enforcement of this Agreement, a court of competent jurisdiction holds that the restrictions stated herein are unreasonable under circumstances then existing, the parties agree that the maximum period, scope or geographical area reasonable under such circumstances shall be substituted for the stated period, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by applicable laws.

(j) 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.

9. RIGHTS UPON A CHANGE IN CONTROL.

(a) Notwithstanding anything in this Agreement to the contrary, if upon or at any time during the term of this Agreement there is a Termination Event (as defined below) that occurs within one (1) year following any Change in Control (as defined in Exhibit A), Employee shall be treated as if Employee had been terminated by the Company without substantial cause pursuant to Subsection 7(a).

(b) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of Employee's death, or any of the factors enumerated in Subsection 7(e) 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 or business;

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

(iv) any reduction, limitation or failure to pay or provide any of the compensation, reimbursable expenses, long-term incentive compensation awards, 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 Employee had immediately prior to the Change in Control.

(c) Special Severance in the Event of a Termination Pursuant to Section 9. In the event of a termination pursuant to Section 9 of this Agreement, then Special Severance shall consist of a total amount equal to 1.000 times the sum of the Employee's most recent annual base salary and annual target incentive, payable in equal installments on the same pay schedule as in effect at the time of termination over a period of twenty-four (24) months from the date of termination. All such Special Severance shall be subject to the provisions of Subsection 7(b).

(d) Incentive Payments in the Event of a Termination Pursuant to Section 9. In the event of a termination pursuant to Section 9 of this Agreement, Employee shall be offered the opportunity to receive Incentive Payments in a total amount equal to 1.000 times the sum of Employee's most recent annual base salary and annual target incentive, payable in equal installments on the same pay schedule as in effect at the time of termination over a period of twenty-four (24) months from the date of termination. All such Incentive Payments shall be subject to the provisions of Subsection 7(c).

(e) To the extent that any or all of the payments and benefits provided for in this Agreement and pursuant to any other agreements with Employee constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code (the "Code") and, but for this Section 9, would be subject to the excise tax imposed by Section 4999 of the Code, then the aggregate amount of such payments and benefits shall be reduced by the minimum amounts necessary to equal one dollar less than the amount which would result in such payments and benefits being subject to such excise tax. The reduction, unless the employee elects otherwise, shall be in such order that provides employee with the greatest after-tax amount possible. All determinations required to be made under this Section 9, including whether a payment would result in a parachute payment and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized accounting firm agreed to by the Company and Employee. The Company shall pay the cost of the accounting firm, and the accounting firm shall provide detailed supporting calculations both to the Company and the Employee. The determination of the accounting firm shall be final and binding upon the Company and the Employee, except that if, as a result of subsequent events or conditions (including a subsequent payment or the absence of a subsequent payment or a determination by the Internal Revenue Service or applicable court), it is determined that the excess parachute payments, excise tax or any reduction in the amount of payments and benefits, is or should be other than as determined initially, an appropriate adjustment shall be made, as applicable, to reflect the final determination.

10. MISCELLANEOUS.

(a) 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 Employee's rights, benefits, duties, obligations or other interests in this Agreement, it being understood that this Agreement is personal to Employee.

(b) 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. As of the Effective Date, except as otherwise explicitly provided herein, this

Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

(c) 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 at the address currently on file with the Company, and to the Company at:

Company: Topgolf International, Inc
c/o Callaway Golf Company
2180 Rutherford Road
Carlsbad, California 92008
Attn: General Counsel

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

(d) 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.

(e) 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.

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

(g) 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.

(h) 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.

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

11. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) Generally. Except with respect to the injunctive relief provided for in Section 8(i) or claims that the parties may not lawfully agree in advance to resolve by arbitration (e.g., workers' compensation and unemployment compensation), the Employee and the Company agree that any controversy or claim arising out of or relating to this Agreement, the employment relationship between the Employee and the Company, or the termination thereof, including the arbitrability of any controversy or claim, which cannot be settled by mutual agreement will be finally settled by binding arbitration in accordance with the Expedited Employment Arbitration Rules & Procedures ("JAMS Rules") of Judicial Arbitration & Mediation Service, Inc. ("JAMS"), as set forth in Section 16.1 et seq. of the JAMS Rules, or any successor provision thereto, as follows: Any Party aggrieved will deliver a notice to the other Party setting forth the specific points in dispute. Any points remaining in dispute twenty (20) days after the giving of such notice may, upon ten (10) days' notice to the other party, be submitted to JAMS arbitration conducted before a single neutral arbitrator in Dallas, TX. The arbitrator shall be appointed by agreement of the parties hereto or, if no agreement can be reached, by JAMS. The arbitrator may enter a default decision against any Party who fails to participate in the arbitration proceedings. Notwithstanding the foregoing, a Party who seeks equitable relief, including injunctive relief, shall not be obligated to utilize the arbitration proceedings required hereunder and instead may seek such relief in any state or federal court sitting in Dallas, TX.

(b) Binding Effect. The decision of the arbitrator on the points in dispute will be final, unappealable and binding, and judgment on the award may be entered in any court having jurisdicti on thereof. The arbitrator shall only be authorized to interpret the provisions of this Agreement, and shall not amend, change or add to any such provisions. The Parties agree that this provision has been adopted by the Parties to rapidly and inexpensively resolve any disputes between them and that this provision will be grounds for dismissal of any court action commenced by either Party with respect to this Agreement, other than post-arbitration actions seeking to enforce an arbitration award or proceedings seeking equitable relief as permitted under this Agreement. In the event that any court determines that this arbitration procedure is not binding, or otherwise allows any litigation regarding a dispute, claim, or controversy covered by this Agreement to proceed, the parties hereto hereby waive (to the fullest extent permitted by law) any and all right to a trial by jury in or with respect to such litigation.

(c) The provisions of this Section shall survive the termination of the Agreement and shall be binding upon the parties.

THE PARTIES HAVE READ SECTION 11AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

/s/ AS (Employee) /s/ PSB (Company)

12. COOPERATION. At the request of the Company, Employee agrees to cooperate with the Company's reasonable requests for assistance removing Employee's name from corporate boards, other corporate documents, bank accounts and the like, including, but not limited to, signing documents and taking other action as requested by the Company. By taking such actions in response to the request of the Company, Employee is not forfeiting any right to indemnity or defense that may be afforded to Employee under Delaware or other applicable laws.

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

EMPLOYEE

/s/ Arthur Starrs
Arthur Starrs

COMPANY
Topgolf International, Inc

By: /s/ Patrick S. Burke
Patrick Burke

EXHIBIT A

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 Callaway and its subsidiaries and any employee benefit or stock ownership plan of Callaway or its subsidiaries and also excluding an underwriter or underwriting syndicate that has acquired Callaway'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 Callaway'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 Callaway (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of Callaway, provided that any individual who becomes a director after the effective date hereof whose election, or nomination for election by Callaway'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 Callaway'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 Callaway's shareholders is approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board; or

3. Consummation by Callaway of the sale, lease, exchange or other disposition, in one transaction or a series of transactions, by Callaway of all or substantially all of Callaway's assets or a reorganization or merger or consolidation of Callaway with any other person, entity or corporation, other than

(a) a reorganization or merger or consolidation that would result in the voting securities of Callaway 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 Callaway, 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 Callaway 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 Callaway (or similar transaction) that does not result in a material change in beneficial ownership of the voting securities of Callaway or its successor; or

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

EXHIBIT S

[The language in this Release may change based on legal developments and evolving best practices; this form is provided as an example of what will be included in the final Release document.)

WAIVER AND GENERAL RELEASE OF CLAIMS

This WAIVER AND GENERAL RELEASE OF CLAIMS (this "Agreement") is entered into as of this ______ day of _____________________, 20__, by and between ("Executive") and Topgolf International, Inc. (the "Company").

1. General Release.

a. In consideration of the separation payments (less all applicable federal, state and local withholdings) set forth in Section ____ of that certain Employment Agreement, dated______________, by and between the Company and Executive (the "Employment Agreement"), Executive, on behalf of himself and his agents, heirs, executors, successors and assigns, knowingly and voluntarily releases, remises, and forever discharges the Company, and each of its respective parents, subsidiaries or affiliates, together with each of their current and former principals, officers, directors, partners, shareholders, agents, representatives and employees, and each of their respective affiliates, and each of the above listed person's heirs, executors, successors and assigns whether or not acting in his or her representative, individual or any other capacity (collectively, the "Releasees"), to the fullest extent permitted by law, from any and all debts, demands, actions, causes of actions, accounts, covenants, contracts, agreements, claims, damages, costs, expenses, omissions, promises, and any and all claims and liabilities whatsoever, of every name and nature, known or unknown, suspected or unsuspected, both in law and equity ("Claims"), which Executive ever had, now has, or may hereafter claim to have against the Releasees by reason of any matter, cause or thing whatsoever arising from the beginning of time to the time he signs this Agreement (the "General Release"). The General Release shall apply to any Claim of any type, including, without limitation, any Claims with respect to Executive's entitlement to any wages, bonuses, benefits, payments, or other forms of compensation; any claims of wrongful discharge, breach of contract, breach of the covenant of good faith and fair dealing, violation of public policy, defamation, personal injury, or emotional distress; any Claims of any type that Executive may have arising under the common law; any Claims under Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the Americans With Disabilities Act, the Family and Medical Leave Act, the Employee Retirement Income Security Act, the Fair Labor Standards Act, the federal Workers' Adjustment and Retraining Notification Act, the Sarbanes-Oxley Act, each as amended; and any other federal, state or local statutes, regulations, ordinances or common law, or under any policy, agreement, contract, understanding or promise, written or oral, formal or informal, between any of the Releasees and Executive, and shall further apply, without limitation, to any and all Claims in connection with, related to or arising out of Executive's employment relationship, or the termination of his employment, with the Company or any Releasee.

b. Executive intends that this general release extend to any and all Claims of any kind or character related to the Company, and Executive, on behalf of himself, his agents, heirs, executors, successors and assigns, therefore expressly waives any and all rights granted by federal or state law or regulation that may limit the release of unknown claims.

c. Except as provided in Section _____ of the Employment Agreement, Executive acknowledges and agrees that the Company has fully satisfied any and all obligations owed to him arising under the Employment Agreement, and no further sums are owed to him by the Company or by any of the other Releasees at any time under the Employment Agreement. Executive represents and warrants that Executive has not filed, and Executive will not file, any lawsuit or institute any proceeding, charge, complaint or action asserting any claim released by this Agreement before any federal, state, or local administrative agency or court against any Releasee, concerning any event occurring prior to the signing of this Agreement. Nothing in this Agreement, however, shall be construed as prohibiting Executive from filing a charge or complaint with the Equal Employment Opportunity Commission ("EEOC") or participating in an investigation or proceeding conducted by the EEOC, although Executive hereby agrees that he is waiving any right he may have to benefit in any manner from any relief (whether monetary or otherwise) arising out of any such investigation or proceeding conducted by the EEOC. Executive also hereby agrees that nothing contained in this Agreement shall constitute or be treated as an admission of liability or wrongdoing by any of the Releasees.

d. Nothing in this Section 1 shall be deemed to release (i) Executive's right to enforce the terms of this Agreement or the Employment Agreement (other than the claims released hereunder), (ii) Executive's rights, if any, to any vested benefits as of Executive's last day of employment with the Company under the terms of an employee compensation or benefit plan, program or agreement in which Executive is a participant, including, without limitation any right with respect to any equity interests in the Company or its affiliates that the Executive may own, (iii) Executive's rights to indemnification under any indemnification agreement he has with the Company or any other Releasee, under the Employment Agreement and/or under the Company's or any Releasee's charter or bylaws, or to whatever coverage Executive may have under the Company's or any Releasee's directors' and officers' insurance policy for acts and omissions when Executive was an officer or director of the Company or of any Releasee, or (iv) any claim that cannot be waived under applicable law, including any rights to workers' compensation or unemployment insurance.

2. Consultation with Attorney; Voluntary Agreement. The Company advises Executive to consult with an attorney of his choosing prior to signing this Agreement. Executive understands and agrees that he has the right and has been given the opportunity to review this Agreement and, specifically, the General Release in Section 1 above, with an attorney. Executive also understands and agrees that he is under no obligation to consent to the General Release set forth in Section 1 above. Executive acknowledges and agrees that the payments set forth in Section ____ of the Employment Agreement are sufficient consideration to require him to abide with his obligations under this Agreement, including but not limited to the General Release set forth in Section 1. Executive represents that he has read this Agreement, including the General Release set forth in Section 1 and understands its terms and that he enters into this Agreement freely, voluntarily, and without coercion.

3. [If age 40 or older as of Date of Termination: Effective Date; Revocation. Executive acknowledges and represents that he has been given at least twenty-one (21) days during which to review and consider the provisions of this Agreement and, specifically, the General Release set forth in Section 1 above, although he may sign and return it sooner if he so desires. Executive further acknowledges and represents that he has been advised by the Company that he has the right to revoke this Agreement for a period of seven (7) days after signing it. Executive acknowledges and agrees that, if he wishes to revoke this Agreement, be must do so in a writing, signed by him and received by the Company no later than 5:00 p.m. local time on the seventh (7th) day of the revocation period. If the last day of the revocation period falls on a Saturday, Sunday or holiday, the last day of the revocation period will be deemed to be the next business day. If no such revocation occurs, the General Release and this Agreement shall become effective on the eighth (8th) day following his execution of this Agreement (the "Release Effective Date"). Executive further acknowledges and agrees that, in the event that he revokes this Agreement, it shall have no force or effect, and he shall have no right to receive any severance payment pursuant to Section ____ of the Employment Agreement.]

4. Warranty Against Prior Transfer of Released Claims. Executive hereby represents and warrants to the Releasees that Executive is the sole owner of any Claims that Executive may now have or in the past had against any of the Releasees and that Executive has not assigned, transferred, or purported to assign or transfer any such Claim to any person or entity.

5. Severability. In the event that any one or more of the provisions of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality and

enforceability of the remainder of the Agreement shall not in any way be affected or impaired thereby.
6. Waiver. No waiver by either party of any breach by the other party of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of any other provision or condition at the time or at any prior or subsequent time. This Agreement and the provisions contained in it shall not be construed or interpreted for or against either party because that party drafted or caused that party's legal representative to draft any of its provisions.

7. Governing Law. This Agreement shall be construed and enforced under and be governed in all respects by the laws of the State of Texas, without regard to the conflict of laws principles thereof.

8. Disputes. Any disputes arising out of this Agreement shall be resolved as set forth in Section 11 of the Employment Agreement.

9. Headings. All descriptive headings in this Agreement are inserted for convenience only and shall be disregarded in construing or applying any provision of this Agreement.

10. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been duly executed as of the dates written below.

Dated: ____________________

____
[EXECUTIVE]

Dated: ____________________

Topgolf International, Inc

By ____________________
Name:
Title:

Exhibit 31.1

CERTIFICATION

I, Oliver G. Brewer III, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ Oliver G. Brewer III

Oliver G. Brewer III
President and Chief Executive Officer

Dated: August 9, 2021

Exhibit 31.2

CERTIFICATION

I, Brian P. Lynch, certify that:

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

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

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

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

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

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

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

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

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

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

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

/S/ BRIAN P. LYNCH

Brian P. Lynch
Executive Vice President and Chief Financial Officer

Dated: August 9, 2021

Exhibit 32.1

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Callaway Golf Company, a Delaware corporation (the "Company"), does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the quarterly period ended June 30, 2021, as filed with the Securities and Exchange Commission (the "10-Q Report"), that:

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

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

The undersigned have executed this Certification effective as of August 9, 2021.

/s/ OLIVER G. BREWER III

Oliver G. Brewer III
President and Chief Executive Officer

/s/ BRIAN P. LYNCH

Brian P. Lynch
Executive Vice President and Chief Financial Officer