ADAMS GOLF INC
Form 10-K
March 08, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-24583
ADAMS GOLF, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	**75-2320087**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
300 Delaware Avenue, Suite 572, Wilmington, Delaware	**19801**
(Address of principal executive offices)	(Zip Code)

(302) 427-5892
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock $.001 Par Value
Title of Class

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.
[X] Yes [_] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the Registrant is an accelerated Filer (as defined by Rule 12b-2 of the Act)
[_] Yes [X] No

The aggregate market value of the Registrant s Common Stock held by nonaffiliates of the Registrant at June 30, 2003 was $4,265,520 based on the closing sales price of $0.33 per share of the Registrant s Common Stock on the OTC Bulletin Board.

The number of outstanding shares of the Registrant s Common Stock, par value $.001 per share, was 22,480,071 on February 25, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the Registrant s definitive proxy statement, which will be filed on or before April 30, 2004, for the Annual Meeting of Stockholders to be held on May 13, 2004.

ADAMS GOLF, INC.
FORM 10K
TABLE OF CONTENTS

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

Item 1. Business

General

Founded in 1987, Adams Golf, Inc. (the Company or Adams Golf) initially operated as a component supplier and contract manufacturer. Thereafter, the Company established its custom fitting operation. Today it designs, assembles, markets and distributes premium quality, technologically innovative golf clubs, including the Ovation Fairway woods, Redline drivers and fairway woods, the Tight Lies family of fairway woods and drivers, the Adams Golf Idea, A1 and A1 Pro Irons and Idea i-Woods, the Tight Lies GT irons and i-Woods, the Tom Watson signature series of wedges, the GT Spec Putters and certain accessories. The Company was incorporated in 1987 and re-domesticated in Delaware in 1990. The Company completed an internal reorganization in 1997 and now conducts its operations through several direct and indirect wholly-owned subsidiaries, agencies, and distributorships.

Segments and Products

Adams Golf operates in a single segment within the golf industry (golf clubs and accessories) and offers more than one class of product within that segment. The Company currently offers the following classes of products:

Drivers

The Company currently offers a variety of different models based on the shape, size and material used in the club head. The Company s current driver heads are made of titanium and stainless steel depending on the model. In January 2003, the Company introduced the Redline model which offers a 460cc titanium head that is designed to maximize the distance, forgiveness and accuracy of the drive. The Redline is available in a variety of lofts and with a 60-gram graphite shaft. In addition to the new Redline, Adams Golf continues to offer the GT 363 with a 363cc traditional shaped titanium head and high performance face, which are designed to deliver maximum distance and increased control for off-center shots.

Fairway Woods

The Company currently offers a variety of fairway wood designs, all of which incorporate the upside down head shape of the Company s most successful product line to date, the Tight Lies fairway woods. In January 2004, the Company introduced the new Ovation fairway woods. The Ovation woods are designed to combine maximum performance with incredible forgiveness to achieve an incredibly easy to hit fairway wood. The Ovation has a low center of gravity and high launch with low spin enabling a player to get the ball high into the air and achieve greater distance. In addition, in January 2003, the Company introduced its new Redline fairway wood product line. The Redline wood has a titanium head with a high performance face designed to offer explosive distance and ease in hitting from all lies. Redline woods are offered in a variety of lofts with a 75-gram graphite shaft. The Company also offers the Tight Lies GT stainless steel fairway woods line, which incorporate a thin-faced design to deliver maximum distance and playability. The Company also offers the Tight Lies Idea i-Wood and the GT i-Wood, which are hybrid utility clubs designed to combine the distance of a long iron with the playability of a fairway wood. The Company also continues to offer its original Tight Lies fairway woods.

Irons

Idea irons utilize Idea I-woods a hybrid club that is part iron and part wood for long irons. Idea I-woods are designed to combine fairway wood distance with the control and accuracy of an iron. Oversized hollow back irons are utilized for the mid irons. The center of gravity of hollow backed irons is placed low and to the back to deliver distance and accuracy. The short irons are oversized cavity back irons, which are designed for maximum control and feel. This hybrid set of Idea irons was designed to be truly easy to hit. In the third quarter of 2003, the Company extended the Idea Product line to include the A1 and A1 Pro irons. The A1 is designed for the mid range handicap player, and includes a 3 i-wood and 4 through pitching wedge irons. The A1 Pro irons are designed for the highly skilled player and has 9 clubs in a set, including a 2 i-wood and 3 through pitching wedge irons.

Wedges and Other

As a complement to the Idea irons, Adams Golf offers the Tom Watson signature wedges with a classic profile available with the Company s proprietary graphite tipped (GT) shaft designed to provide increased feel and playability. In addition, the Company offers the GT Spec line of putters featuring a milled face and body cast from soft stainless steel. These putters are designed to provide a better feeling, more consistent path to the hole through the use of heavier head weights and the addition of the Company s graphite tipped (GT) shafts. The Company also offers a line of golf bags, hats and other accessories.

Percentage of Net Sales by Product Class

	2003	2002	2001
Drivers	21.6%	26.2%	25.4%
Fairway Woods	34.0	47.5	46.4
Irons	39.9	19.8	25.4
Wedges and Other	4.5	6.5	2.8
Total	100.0%	100.0%	100.0%

The Company s growth and ultimate success depends, in large part, on its ability to develop and introduce new products that are accepted by consumers in the marketplace. Historically, a large portion of new golf club technologies and product designs have been met with consumer rejection. Certain products introduced by the Company have not met the level of consumer acceptance anticipated by management. No assurance can be given that the Company will be able to continue to design, manufacture and introduce new products that will meet with market acceptance. Failure by the Company to identify and develop innovative new products that achieve widespread market acceptance would adversely affect the Company s future growth and viability. Additionally, successful technologies, designs and product concepts are likely to be copied by competitors. Certain of the Company s products and technologies have been copied by competitors in the past, resulting in, among other things, the diversion of management s attention, confusion in the marketplace and price/margin erosion. The Company s operating results have fluctuated and could continue to fluctuate as a result of the number, timing and market acceptance of new product introductions by the Company and its competitors.

Design and Development

The Company s design and development team is responsible for developing, testing and introducing new technologies and product designs. This team is currently led by Tim Reed, Vice President-Research and Development. Prior to joining the Company, Mr. Reed spent over 18 years in the golf industry and, most notably, was responsible for all new product introductions at TearDrop Golf Company, which included TearDrop Putters and Tommy Armour and Ram brand golf clubs. Barney Adams, the Company s founder, Chairman and inventor of the Tight Lies fairway woods, participates and consults with Adams Golf s in-house design development team.

Together with management, the design and development team engages in a four-step process to create new products.

Market Evaluation Prior to development of any potential concepts, the Company s management team, in conjunction with the design and development team, performs an extensive evaluation of the current golf market to determine which particular product classes the Company will pursue for concept development. As a part of the market evaluation, the Company analyzes its current product offerings against current and anticipated competitor products with respect to consumer preferences. To determine consumer preferences, the Company utilizes its independent sales force, consumer surveys and market intelligence tools that solicit product and design characteristics desired by consumers. Once the consumer product and design characteristics are determined and evaluated, management and the design and development team determine the product classes and types of products that will be pursued for the upcoming season.

Performance Characteristics For the product classes and the types of products to be offered within those classes, management evaluates the target market for its new concepts and the performance characteristics that are commensurate with the target market. Performance characteristics are always predicated on producing high quality, high performance products. Certain performance characteristics that are evaluated include easy playability, ball flight and spin objectives, desired weight and feel of the product and conformity to U.S. Golf Association (USGA) golf equipment standards.

Patent Review The Company considers patent protection for its technologies and product designs to be an important part of its development strategy; however, the Company may not seek patent protection for some of its technologies or product designs. The Company and its patent attorneys conduct a search of prior art and existing products to determine whether a new product idea may be covered by an existing patent. Patent review, depending upon the complexity of the design involved, generally requires between 3 and 18 months to complete; however, this stage of product development typically occurs in conjunction with one or more of the other three R&D steps.

Development Concurrent with the patent review process, the design and development team begins to develop computer generated working designs incorporating the desired performance characteristics, which are then modeled using in-house rapid prototyping systems. During the development phase, substantial consideration is also given to the optimal shaft performance, cosmetics and sound characteristics. Once prototypes are developed, they are subjected to stringent iterative testing requirements to determine if the product will deliver the desired performance. In certain circumstances, prototypes are distributed to consumers to solicit feedback with respect to specific product performance characteristics and intangible consumer perception. Using consumer feedback, subsequent modifications are made to the products to achieve the performance requirements desired by the identified target market. The Company then solicits official USGA approval.

Historically, the entire process from Market Evaluation through Development has taken from six to twelve months to complete.

The Company s research and development expenses were approximately $1,721,000, $1,368,000 and $1,008,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Patents

The Company s ability to compete effectively in the golf club market may depend on its ability to maintain the proprietary nature of its technologies and products. The Company currently holds 21 U.S. patents relating to certain of its products and proprietary technologies and has six patent applications pending. Assuming timely payment of maintenance fees, if any, the Company expects that the 21 currently issued patents will expire on various dates between 2009 and 2016. The Company holds patents with respect to the design of the Tight Lies fairway wood, the SC Series driver, the Tight Lies GT irons, including the Company s graphite tipped (GT) shaft, and the Tight Lies ST fairway wood and driver heads. There can be no assurance, however, as to the degree of protection afforded by these or any other patents held by the Company or as to the likelihood that patents will be issued from the pending patent applications. Moreover, the Company s patents may have limited commercial value or may lack sufficient breadth to adequately protect the aspects of the Company s products to which the patents relate. The Company currently holds six foreign patents and has eleven foreign patent applications pending. The U.S. patents held by the Company do not preclude competitors from developing or marketing products similar to the Company s products in international markets.

There can be no assurance that competitors, many of whom have substantially greater resources than the Company and have made substantial investments in competing products, will not apply for and obtain patents that will prevent, limit or interfere with the Company s ability to make and sell its products. The Company is aware of numerous patents held by third parties that relate to products competitive to the Company s. There is no assurance that these patents would not be used as a basis to challenge the validity of the Company s patent rights, to limit the scope of the Company s patent rights, or to limit the Company s ability to obtain additional or broader patent rights. A successful challenge to the validity of the Company s patents may adversely affect the Company s competitive position. Moreover, there can be no assurance that such patent holders or other third parties will not claim infringement by the Company with respect to current and future products. Because U.S. patent applications are held and examined in secrecy, it is also possible that presently pending U.S. applications will eventually issue with claims that may be infringed by the Company s products or technologies. The defense and prosecution of patent suits is costly and time-consuming, even if the outcome is favorable. This is particularly true in foreign countries where the expenses associated with such proceedings can be prohibitive. An adverse outcome in the defense of a patent suit could subject the Company to significant liabilities to third parties, require the Company and others to cease selling products, or require disputed rights to be licensed from third parties. Such licenses may not be available on satisfactory terms, if at all.

Despite the Company s efforts to protect its patent and other intellectual property rights, unauthorized parties have attempted and are expected to continue to attempt to copy all, or certain aspects of, the Company s products. Policing unauthorized use of the Company s intellectual property rights can be difficult and expensive, and while the Company generally takes appropriate action whenever it discovers any of its products or designs have been copied, knock-offs and counterfeit products are a persistent problem in the performance-oriented golf club industry. There can be no assurance that the Company s means of protecting its patent and other intellectual property rights will be adequate.

Raw Materials, Manufacturing and Assembly

The Company manages all stages of manufacturing, from sourcing to assembly, in order to maintain a high level of product quality and consistency. The Company establishes product specifications, selects the material used to produce the components, and tests the specifications of components received by the Company.

The Company outsources substantially all of its assembly processes to a third-party service provider. The service provider is compensated on a per piece basis for each golf club assembled and is allowed to utilize certain equipment and production space previously utilized by the Company for its internal assembly processes. All products assembled by the service provider continue to be subject to the same quality control and product specification requirements previously instituted by the Company. Management believes that, in addition to certain other benefits, outsourcing its assembly process to a third party reduces costs associated with seasonal production requirements, in addition to providing certain other benefits.

As part of the Company s quality control program, the Company has reviewed the quality assurance programs at the manufacturing facilities of its component part suppliers to monitor adherence to design specifications. Upon arrival at the Company s facilities in Plano, Texas, the components used in the Company s clubs are again checked to ensure consistency with strict design specifications. Golf clubs are then assembled using the appropriate component parts.

The Company has put into place a purchasing procedure that strives to negotiate effective terms with the various vendors while continuing to ensure quality of components. The Company is continually re-evaluating existing vendors while testing new potential vendors for all the various product lines offered by the Company. Thus, even though some of the company s existing products might be currently derived from a sole source on specific component parts, that does not mean that they will be the single possible source supplier. Substantially all of the Company s fairway wood, driver, iron, i-wood, wedge and putter component parts are manufactured in Taiwan and China. Multi-material shafts used in some of the Company s product lines (specifically, the Graphite Tip (GT) shaft) are available from a sole supplier, True Temper Sports.

The Company could, in the future, experience shortages of components or periods of increased price pressures, which could have a material adverse effect on the Company s business, results of operations, financial position and/or liquidity. To date, the Company has not experienced any material interruptions in supply from any sole supplier.

Marketing

The goals of the Company s marketing efforts are to build its brand identity and drive sales through its retail distribution channels. To accomplish these goals, Adams Golf currently uses golf-specific advertising, engages in promotional activities, and capitalizes on its relationships with well known professional golfers.

Endemic Advertising The Company s primary advertising efforts focus on golf-specific advertising, which include advertising with television commercials that run during golf tournaments, golf programming with editorial in magazines and newspapers. The Company also sponsors developmental professional tour and selected golf tournaments.

Promotional Activities The Company engages in a variety of promotional activities to sell and market its products. Such activities have included consumer sweepstakes and promotional giveaways with certain purchases.

Relationships with Professional Golfers The Company has entered into endorsement contracts with professional golfers on the PGA and Champions PGA Tours and believes that having a presence on these tours promotes the image of its product lines and builds brand awareness. In August 1999, the Company entered into a five year endorsement agreement with Tom Watson, which was renegotiated in September of 2002 and will expire on August 31, 2004. Under the terms of the agreement, Mr. Watson is entitled to an annual retainer, options to purchase shares of the Company s stock and bonuses contingent on the levels of his performance in televised golf events. In exchange for the compensation noted above, Mr. Watson must meet and maintain certain performance requirements, which include, but are not limited to, exclusive use of the Company s products, participation in a minimum number of events and feedback on performance of the Company s products. In addition to the agreement with Mr. Watson, the Company has entered into endorsement agreements with other well-known professionals such as Larry Nelson, Sammy Rachels, Walter Hall, Allen Doyle, Tom Jenkins, Des Smith, DA Weibring, Rodger Davis and Jose Maria Canizares, which expire at various dates through 2005 and require the use of certain of the Company s products.

Markets and Methods of Distribution

The Company s net sales are primarily derived from sales to on- and off- course golf shops and sporting goods retailers and, to a lesser extent, international distributors. No assurances can be given that demand for the Company s current products or the introduction of new products will allow the Company to achieve historical levels of sales in the future.

Sales to Retailers The Company sells a majority of its products to selected retailers. The Company believes its selective retail distribution strategy helps its retailers maintain profitable margins and maximize sales of the Company s products. For the year ended December 31, 2003, sales to U.S. specialty retailers, mass merchants, sporting goods retailers, and on course suppliers accounted for approximately 88% of the Company s total net sales, as compared to approximately 82% for the year ended December 31, 2002. As products mature, they may be sold to alternative channels of distribution, which are not in direct competition with selected retailers for premier product lines.

Adams Golf maintains a field sales staff that at February 25, 2004 consisted of 43 independent sales representatives, three regional vice presidents and a regional sales manager who are in regular personal contact with the Company s retail accounts (approximately 4,000 retailers). These sales representatives, sales managers and regional vice presidents are supported by eight inside sales representatives who maintain contact with the Company s retailers nationwide. The inside sales representatives also serve in a customer service capacity as the Company believes that superior customer service can significantly enhance its marketing efforts.

International Sales International sales are made primarily in Europe, Canada and Japan. International sales in Canada are made through an agency relationship. Commencing January 1, 2002, sales in Japan are made through an independent distributor. Prior to that date, sales were made through a wholly-owned subsidiary of the Company. Commencing November 1, 2002, sales in the United Kingdom are made through an independent distributor. International sales to other countries throughout the world are made through a network of approximately 40 independent distributors. For the years ended December 31, 2003, 2002 and 2001, international sales accounted for approximately 12.0%, 18.3% and 19.3%, respectively, of the Company s net sales.

Web Site The Company maintains a Web site at www.adamsgolf.com, which allows the visitor to access certain information about the Company s products and to locate retailers. The Company does not currently sell its products via its Web site.

Unauthorized Distribution of Counterfeit Clubs

Despite the Company s efforts to limit its distribution to selected retailers, some quantities of the Company s products have been found in unapproved outlets or distribution channels, including the common internet auction sites. The existence of a gray market in the Company s products can undermine the sales of authorized retailers and foreign wholesale distributors who promote and support the Company s products and can injure the Company s image in the minds of its customers and consumers. Adams Golf makes efforts to limit or deter unauthorized distribution of its products, but does not believe the unauthorized distribution of its products can be totally eliminated. The Company does not believe that the unauthorized distribution of its clubs has had, or will have, a material adverse effect on the Company s results of operations, financial condition or competitive position, although there can be no assurance as to future results.

In addition, the Company is occasionally made aware of the existence of counterfeit copies of its golf clubs particularly in foreign markets. The Company takes action in these situations through local authorities and legal counsel where practical. The Company does not believe that the availability of counterfeit clubs, has had or will have, a material adverse effect on the Company s results of operations, financial condition or competitive position, although there can be no assurance as to future results.

Industry Specific Requirements

The Company performs ongoing credit evaluations of its wholesale customers financial condition and generally provides credit without the requirement of collateral from these customers. The Company believes it has adequate reserves for potential credit losses. Due to industry sensitivity to consumer buying trends and available disposable income, the Company has in the past extended payment terms for specific retail customers. Issuance of these terms (i.e. greater than 30 days or specific dating) is dependent on the Company s relationship with the customer and the customer s payment history. Payment terms are extended to selected customers typically during off-peak times in the year in order to promote the Company s brand name and to assure adequate product availability, often to coincide with planned promotions or advertising campaigns. Although a significant amount of the Company s sales are not affected by these terms, the extended terms do have a negative impact on the Company s financial position and liquidity. The Company expects to continue to selectively offer extended payment terms in the future, depending upon known industry trends and the Company s financial condition.

In addition to extended payment terms, the nature of the industry also requires that the Company carry a substantial level of inventory due to the lead times associated with purchasing components overseas coupled with the seasonality of customer demand. The Company s inventory balances were approximately $8,058,000 and $9,127,000 at December 31, 2003, and 2002, respectively. The decrease in inventory levels is a result of improved purchasing, production and distribution of new product lines in addition to sales of maturing product lines at reduced selling prices.

Major Customers

The Company is currently dependent on eight customers, which collectively comprised approximately 24.9% of net revenues for the year ended December 31, 2003. Of these customers one customer individually represented greater than 5% of net revenues for the year ended December 31, 2003, and no customers represented greater than 10% of net revenues for the year ended December 31, 2003. For the year ended December 31, 2002, six customers comprised approximately 24.4% of net revenue, of which only one customer represented greater than 5% but less than 10%. For the year ended December 31, 2001, nine customers comprised approximately 28.5% of net revenue, of which only three customers represented greater than 5% but less than 10%. The loss of an individual or a combination of these customers would have a material adverse effect on consolidated revenues.

Seasonality and Quarterly Fluctuations

Golf generally is regarded as a warm weather sport and net sales of golf equipment have been historically strongest for the Company during the first and second quarters, which ensures adequate levels of inventory at retail locations for the golf season. In addition, net sales of golf clubs is dependent on discretionary consumer spending, which may be affected by general economic conditions. A decrease in consumer spending generally could result in decreased spending on golf equipment, which could have a material adverse effect on the Company s business, operating results and financial condition. In addition, the Company s future results of operations could be affected by a number of other factors, such as unseasonable weather patterns, market acceptance and demand for the Company s existing and future products, new product introductions by the Company s competitors, competitive pressures resulting in lower than expected selling prices, and the volume of orders that are received and that can be fulfilled in a quarter. Any one or more of these factors could adversely affect the Company s business, operating results and financial condition, or result in the Company failing to achieve its expectations as to future sales or operating results.

Because most operating expenses are relatively fixed in the short term, the Company may be unable to adjust spending sufficiently in a timely manner to compensate for any unexpected sales shortfall, which could have a material adverse affect on quarterly results of operations and liquidity. If technological advances by competitors or other competitive factors require the Company to invest significantly greater resources than anticipated in research and development or sales and marketing efforts, the Company s business, operating results or financial condition could be materially adversely affected. Accordingly, the Company believes that period-to-period comparisons of its results of operations should not be relied upon as an indication of future performance. In addition, the results of any quarter are not indicative of results to be expected for a full fiscal year. As a result of fluctuating operating results or other factors discussed above and below, in certain future quarters the Company s results of operations may be below the expectations of public market analysts or investors. In such event, the market price of the Company s common stock could be materially adversely affected.

Backlog

The amount of the Company s backlog orders at any particular time is affected by a number of factors, including seasonality and scheduling of the manufacturing and shipment of products. At February 25, 2004, the Company had current backorders of $922,000, or 1.8% of total net sales for 2003, and orders to be fulfilled at a future date, not to exceed the current year, of $2,025,000, or 4.0% of total net sales for 2003. At March 14, 2003, the Company had orders on backorder of $1,736,000, or 4.6% of total net sales for 2002 of and orders to be fulfilled at a future date, not to exceed the current year, of $3,159,000, or 8.3% of total net sales for 2002 The current decrease in backorders and orders to be fulfilled at a future date are a result of the launch of the Idea irons in Fall of 2002, which experienced higher demand than production capacity and incoming component shipments availability. Management does not anticipate that a significant level of orders will remain unfilled within the current fiscal year. Management has concluded that, for this purpose, a backlog of greater than 5% of total annual net sales would be significant. In addition, the Company believes that the amount of its backlog is not an appropriate indicator of levels of future sales.

Competition

The golf club market is highly competitive. The Company competes with a number of established golf club manufacturers, some of which have greater financial and other resources than the Company. The Company s competitors include Callaway Golf Company, adidas-Saloman AG (Taylor Made adidas Golf), Nike, Inc. (Nike Golf), Fortune Brands, Inc. (Titleist and Cobra) and Karsten Assembly Company (PING), among others. The Company competes primarily on the basis of performance, brand name recognition, quality and price. The Company believes that its ability to effectively market its products through multiple distribution channels, including on- and off- course golf shops and other retailers, is important to the manner in which the Company competes. The purchasing decisions of many golfers are often the result of highly subjective preferences, which can be influenced by many factors, including, among others, advertising, media, promotions and product endorsements. These preferences may also be subject to rapid and unanticipated changes. The Company could face substantial competition from existing or new competitors who introduce and successfully promote golf clubs that achieve market acceptance. Such competition could result in significant price erosion or increased promotional expenditures, either of which could have a material adverse effect on the Company s business, operating results and/or financial condition. There can be no assurance that Adams Golf will be able to compete successfully against current and future sources of competition or that its business, operating results and/or financial condition will not be adversely affected by increased competition in the markets in which it operates.

The golf club industry is generally characterized by rapid and widespread imitation of popular technologies, designs and product concepts. Due to the success of the Tight Lies fairway woods, the several of the Company s competitors introduced products similar to the Tight Lies fairway woods. The Company may face competition from manufacturers introducing other new or innovative products or successfully promoting golf clubs that achieve market acceptance. The failure to successfully compete in the future could result in a material deterioration of customer loyalty and the Company s image, and could have a material adverse effect on the Company s business, results of operations, financial position and/or liquidity.

The introduction of new products by the Company or its competitors can be expected to result in closeouts of existing inventories at both the wholesale and retail levels. Such closeouts are likely to result in reduced margins on the sale of older products, as well as reduced sales of new products given the availability of older products at lower prices. As the new Redline family of fairway woods and drivers were introduced in 2003, older product lines such as the original Tight Lies and Tight Lies GT fairway woods and drivers experienced reductions in price and were closed out to both wholesale and retail levels. This closeout of various product lines was also a contributing factor to the overall reduction in inventory levels as compared to prior periods.

Domestic and Foreign Operations

Domestic and foreign net sales for the years ended December 31, 2003, 2002 and 2001 are comprised as follows:

	2003		**2002**		**2001**	
Domestic	$ 44,538,000	87.5%	$ 30,995,000	81.7%	$ 38,455,000	80.7%
Foreign	6,341,000	12.5	6,922,000	18.3	9,200,000	19.3
Total	$ 50,879,000	100.0%	$ 37,917,000	100.0%	$ 47,655,000	100.0%

Employees

At February 25, 2004, the Company had 71 full-time employees including 20 engaged in order fulfillment, 10 in research and development and quality control, 8 in sales support and 33 in management and administration. The Company s employees are not unionized. Management believes that its relations with its employees are good.

Item 2. Properties

The Company s administrative offices and assembly facilities currently occupy approximately 65,000 square feet of space in Plano, Texas. This facility is leased by the Company pursuant to a lease agreement expiring in 2008 and may be extended for an additional five years. The Company maintains the right to terminate the lease if it moves to a larger facility owned by the current lessor. The Company believes that these facilities will be sufficient for the foreseeable future.

Item 3. Legal Proceedings

Beginning in June 1999, the first of seven class action lawsuits was filed against the Company, certain of its current and former officers and directors, and the three underwriters of the Company s initial public offering (IPO) in the United States District Court of the District of Delaware. The complaints alleged violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, as amended, in connection with the Company s IPO. In particular, the complaints alleged that the Company s prospectus, which became effective July 9, 1998, was materially false and misleading in at least two areas. Plaintiffs alleged that the prospectus failed to disclose that unauthorized distribution of the Company s products (gray market sales) threatened the Company s long-term profits. Plaintiffs also alleged that the prospectus failed to disclose that the golf equipment industry suffered from an oversupply of inventory at the retail level, which had an adverse impact on the Company s sales. On May 17, 2000, these cases were consolidated into one amended complaint, and a lead plaintiff was appointed. The plaintiffs were seeking unspecified amounts of compensatory damages, interests and costs, including legal fees. On December 10, 2001, the United States District Court for the District of Delaware dismissed the consolidated, amended complaint citing that the plaintiffs failed to plead any facts supporting their claim that the Company or its officers and directors violated the federal securities laws. On January 14, 2002, the plaintiffs filed a motion to alter or amend the Judgment of Dismissal. In the motion, plaintiffs alleged that, if given another opportunity, they would amend the original Complaint to state actionable claims. The motion was denied on August 27, 2003. The plaintiffs filed a notice of appeal on September 25, 2003 and in the early part of 2004 opening briefs and Appellant s reply briefs were submitted to the Court of Appeals.

The Company maintains directors and officers and corporate liability insurance to cover certain risks associated with these securities claims filed against the Company or its directors and officers.

At this time it is not possible to predict whether the Company will incur any liability or to estimate the damages, or the range of damages, that the Company might incur in connection with the action. The Company is also not able to estimate the amount, if any, of reimbursements that it would receive from insurance policies should damages with respect to the above actions be incurred.

From time to time, the Company is engaged in various other legal proceedings in the normal course of business. The ultimate liability, if any, for the aggregate amounts claimed cannot be determined at this time. However, the Company, based on consultation with legal counsel, is of the opinion that there are no other matters pending or threatened which could have a material adverse effect on the Company s financial condition, results of operations and/or liquidity.

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

Not Applicable

PART II

Item 5. Market for Registrant s Common Equity and Related Stockholder Matters

The Company s common stock is currently listed and traded on the OTC Bulletin Board (OTCBB) under the symbol ADGO.OB. The prices in the table below represent the quarterly high and low sales price for the Company s common stock as reported by OTCBB. All price quotations represent prices between dealers, without retail mark-ups, mark-downs or commissions and may not represent actual transactions.

	High	Low
2003		
First Quarter	$ 0.470	$ 0.240
Second Quarter	0.500	0.300
Third Quarter	0.470	0.330
Fourth Quarter	0.820	0.400
2002		
First Quarter	$ 0.750	$ 0.340
Second Quarter	0.660	0.340
Third Quarter	0.390	0.180
Fourth Quarter	0.390	0.200

On February 25, 2004, the last reported sale price of the common stock on the OTCBB was $1.02 per share. At February 2004 Adams Golf, Inc. had approximately 5,000 stockholders based on the number of holders of record and an estimate of the number of individual participants represented by security position listings.

On May 22, 2003, the Company s securities were no longer eligible for listing with the NASDAQ Stock Market. The Company s stock is now being traded using the OTCBB. The OTCBB is a regulated quotation service that displays real-time quotes, last-sales prices and volumes information for eligible securities.

The effect of delisting from the NASDAQ Stock Market could adversely affect the ability or willingness of investors to purchase the common stock, which, in turn, would likely severely affect the market liquidity of the Company s securities. Given the current market price for the Company s common stock and the state of the capital markets generally, we do not expect that we would be able to raise funds through the issuance of our capital stock.

No dividends have been declared or paid relating to the Company s common stock, nor does the Company anticipate declaring dividends in the foreseeable future.

11

Equity Plan Compensation Information:

The following table sets forth information at December 31, 2003 regarding compensation plans under which the Company s equity securities are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans			

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)**	**Weighted-average exercise price of outstanding options, warrants and rights (b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)**
approved by security holders	4,408,187	$0.46	2,231,334
Equity compensation plans not approved by security holders	--	--	--
Total	4,408,187	$0.46	2,231,334

Item 6. Selected Financial Data

The selected financial data presented below is derived from the Company s consolidated financial statements for the years ended December 31, 2003, 2002, 2001, 2000 and 1999, respectively. The data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, the consolidated financial statements and related notes, and other financial information included elsewhere in this document.

	Year Ended December 31,				
	2003	**2002**	**2001**	**2000**	**1999**
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Net Sales(1)	$ 50,879	$ 37,917	$ 47,655	$ 41,677	$ 54,652
Operating income (loss)	2,137	(8,903)	(13,185)	(38,509)	(18,735)
Net income (loss)	$ 2,003	$ (8,925)	$ (13,409)	$ (37,241)	$ (10,589)
Income (loss) per common share (2) :					
Basic	$ 0.09	$ (0.40)	$ (0.60)	$ (1.66)	$ (0.47)
Diluted	$ 0.08	$ (0.40)	$ (0.60)	$ (1.66)	$ (0.47)
Weighted average common shares (2):					
Basic	22,480	22,480	22,480	22,480	22,480
Diluted	24,533	22,480	22,480	22,480	22,480

12

	December 31,				
	2003	**2002**	**2001**	**2000**	**1999**
	(in thousands)				
Consolidated Balance Sheet Data:					