ADAMS GOLF INC
Form 10-Q
November 10, 2004

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

FORM 10-Q

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2004

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

For the transition period from _____t o_____

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)

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 whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act) [ ] Yes [X] No

The number of outstanding shares of the registrant's common stock, par value $.001 per share, was 22,580,821 on November 8, 2004.

ADAMS GOLF, INC. AND SUBSIDIARIES

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ADAMS GOLF, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

ASSETS

	September 30, 2004 (unaudited)	December 31, 2003
Current assets:		
Cash and cash equivalents	$ 14,074	$ 10,135
Trade receivables, net of allowance for doubtful accounts of $832 (unaudited) and $332 in 2004 and 2003, respectively	10,693	10,433
Inventories	10,221	8,058
Prepaid expenses	286	458
Other current assets	61	6
Total current assets	35,335	29,090
Property and equipment, net	747	915
Other assets, net	77	49
	$ 36,159	$ 30,054

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 2,003	$ 1,192
Accrued expenses	6,253	6,025
Total current liabilities	8,256	7,217
Other non-current liabilities	568	609
Total liabilities	8,824	7,826
Stockholders' equity:		
Preferred stock, $0.01 par value; authorized 5,000,000 shares; none issued	--	--
Common stock, $.001 par value; authorized 50,000,000 shares; 23,238,321 and 23,137,571 shares issued and 22,580,821 and 22,480,071 shares outstanding in 2004 and 2003, respectively	23	23
Additional paid-in capital	88,069	87,535
Deferred compensation	(392)	(373)
Accumulated other comprehensive loss	(398)	(356)
Accumulated deficit	(56,831)	(61,465)
Treasury stock, 657,500 common shares, at cost	(3,136)	(3,136)
Total stockholders' equity	27,335	22,228

Contingencies (note 11)		
	$ 36,159	$ 30,054

See accompanying notes to unaudited condensed consolidated financial statements.

ADAMS GOLF, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net sales	$ 10,950	$ 9,634	$ 48,443	$ 42,959
Cost of goods sold	5,999	5,435	23,963	22,907
Gross profit	4,951	4,199	24,480	20,052
Operating expenses:				
Research and development expenses	450	448	1,339	1,286
Selling and marketing expenses	2,815	2,740	12,876	11,190
General and administrative expenses:				
Provision for bad debts	276	197	1,344	650
Other	1,365	1,301	4,273	4,082
Restrucuring expenses:	--	(259)	--	(259)
Total operating expenses	4,906	4,427	19,832	16,949
Operating income (loss)	45	(228)	4,648	3,103
Other income (expense):				
Interest income (expense), net	16	(25)	9	(57)
Other income (expense), net	19	(79)	66	54
Income (loss) before income taxes	80	(332)	4,723	3,100
	19	11	89	106
Income tax expense				
Net income (loss)	$ 61	$ (343)	$ 4,634	$ 2,994
Net income (loss) per common share - basic	$ 0.00	$ (0.02)	$ 0.21	$ 0.13
-			$ 0.18	$ 0.13
diluted	$ 0.00	$ (0.02)		

See accompanying notes to unaudited condensed consolidated financial statements.

ADAMS GOLF, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

Nine Months Ended September 30, 2004
(unaudited)

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive Loss	Accumulated Deficit	Comprehensive Income	Cost of Treasury Stock	Total Stockhold Equity
Balance, December 31, 2003	23,137,571	$ 23	$ 87,535	$ (373)	$ (356)	$ (61,465)		$ (3,136)	$ 22,
Comprehensive income:									
Net income	--	--	--	--	--	4,634	$ 4,634	--	4,
Other comprehensive income, net of tax:									
Foreign currency translation	--	--	--	--	(42)	--	(42)	--	(
Comprehensive income	--	--	--	--	--	--	$ 4,592	--	
Stock options exercised	100,750	--	8	--	--	--		--	
Stock option forfeitures	--	--	(17)	17	--	--		--	
Issuance of stock options	--	--	543	(543)	--	--		--	
Amortization of deferred compensation	--	--	--	507	--	--		--	
Balance, September 30, 2004	23,238,321	$ 23	$ 88,069	$ (392)	$ (398)	$ (56,831)		$ (3,136)	$ 27,

See accompanying notes to unaudited condensed consolidated financial statements.

ADAMS GOLF, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2004	2003
Cash flows from operating activities:		
Net income	$ 4,634	$ 2,994
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment and intangible assets	451	1,142
Amortization of deferred compensation	507	394
Provision for doubtful accounts	1,344	650
Changes in assets and liabilities:		
Trade receivables	(1,604)	(4,512)
Inventories	(2,163)	991
Prepaid expenses	171	374
Income tax receivable	--	18
Other current assets	(54)	124
Other assets	(29)	76
Accounts payable	811	275
Accrued expenses	237	(507)
Other non-current liabilities	--	(90)
Net cash provided by operating activities	4,305	1,929
Cash flows from investing activities:		
Purchases of equipment	(267)	(192)
Net cash used in investing activities	(267)	(192)
Cash flows from financing activities:		
Principal payments under capital lease obligation	(50)	(25)
Exercise of options	8	--
Debt financing costs	(15)	(24)
Net cash used in financing activities	(57)	(49)
Effects of exchange rate changes on cash and cash equivalents	(42)	204
Net increase in cash and cash equivalents	3,939	1,892
Cash and cash equivalents at beginning of period	10,135	5,611
Cash and cash equivalents at end of period	$ 14,074	$ 7,503
Supplemental disclosure of cash flow information		
Interest paid	$ 12	$ 39
Income taxes paid	$ 112	$ 87
Supplemental disclosure of non-cash investing and financing activities - Equipment financed with capital lease	$ --	$ 31

See accompanying notes to unaudited condensed consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The unaudited condensed consolidated financial statements of Adams Golf, Inc. and its subsidiaries (the "Company" or "Adams Golf") for the three and nine month periods ended September 30, 2004 and 2003 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The information included reflects all adjustments (consisting only of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly state the operating results for the respective periods. However, these operating results are not necessarily indicative of the results expected for the full fiscal year. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to SEC rules and regulations. The notes to the unaudited condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in the Company's 2003 Annual Report on Form 10-K filed with the SEC on March 8, 2004.

Founded in 1987, Adams Golf, Inc. 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 Adams Golf Idea, A1 and A1 Pro Irons and Idea i-Woods, the Tight Lies family of fairway woods and drivers, 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-domiciled 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.

2. Inventories

Inventories consisted of the following on the dates indicated (in thousands):

	September 30, 2004 (unaudited)	December 31, 2003
Finished goods	$ 7,111	$ 4,544
Component parts	3,110	3,514
Total Inventory	$ 10,221	$ 8,058

ADAMS GOLF, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Accrued Expenses

Accrued expenses consisted of the following on the dates indicated (in thousands):

	September 30, 2004 (unaudited)	December 31, 2003
Payroll and commissions	$ 644	$ 1,150

Advertising	--	49
Product warranty expense and sales returns	884	1,015
Professional services	42	60
Restructuring costs	70	71
Faldo settlement costs	1,235	1,210
Deferred revenue	1,508	808
Other	1,870	1,662
Total Accrued Liabilities	$ 6,253	$ 6,025

During 2002, the Company executed an operational restructuring plan, which resulted in the closure of the Adams Golf UK, Limited wholly owned subsidiary. The operational restructuring plan resulted in a restructuring charge of $850,000 for severance, a write off of goodwill and other related exit costs. During the third quarter of 2003, the Company was released from future rent obligations, which resulted in a reduction of restructuring expense of approximately $259,000. Approximately $70,000 remains in accrued expenses associated with the operational restructuring. The Company continues to sell its products in the UK through a distributor.

On August 25, 2001, an agreement was reached with Mr. Nick Faldo in settlement of the dispute regarding provisions of his prior professional services agreement with Adams Golf. Pursuant to the terms of settlement, Mr. Faldo received $0.5 million upon execution and $0.5 million on July 15, 2002. In addition, provided Mr. Faldo satisfied certain terms and conditions, he was to receive a series of annual installments for the years 2003 through 2011 aggregating to $2.0 million. At September 30, 2004, approximately $1,235,000 and $529,000 still remains in accrued expenses and non-current liabilities, respectively, in the accompanying consolidated balance sheet for the present value of the future payments on the settlement contract. At December 31, 2003 a $100,000 payment was due to Mr. Faldo based on the terms listed above. However, according to the terms of Mr. Faldo's contract, he must play a specified number of sanctioned events on the PGA and keep his PGA credentials. Because Mr. Faldo failed to meet the contract requirements, the Company did not make a payment at December 31, 2003, nor has the Company made the payment as of the date of this report.

4. Income (loss) per Common Share

The weighted average common shares used for determining basic and diluted income (loss) per common share were 22,511,419 and 26,133,868, respectively, for the three months ended September 30, 2004 and 22,480,071 and 22,480,071, respectively, for the three months ended September 30, 2003. The effect of all warrants and options to purchase shares of the Company's common stock for the three months ended September 30, 2004 resulted in additional dilutive shares of 3,622,449. For this period, approximately 1,439,730 options and 100,000 warrants were excluded from the calculation of dilutive shares, as the effect of inclusion would have been antidilutive. The effect of all warrants and options to purchase shares of the Company's common stock for the three months ended September 30, 2003 were excluded from the calculation of dilutive shares as the effect of inclusion would have been antidilutive.

ADAMS GOLF, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Income (loss) per Common Share (continued)

The weighted average common shares used for determining basic and diluted income (loss) per common share were 22,541,022 and 26,069,703, respectively, for the nine months ended September 30, 2004 and 22,480,071 and 23,653,582, respectively, for the nine months ended September 30, 2003. The effect of all warrants and options to purchase shares of the Company's common stock for the nine months ended September 30,

2004 resulted in additional dilutive shares of 3,528,682. For this period, approximately 1,439,730 options and 100,000 warrants were excluded from the calculation of dilutive shares, as the effect of inclusion would have been antidilutive. The effect of all warrants and options to purchase shares of the Company's common stock for the nine months ended September 30, 2003 resulted in additional dilutive shares of 1,173,511. For the nine months ended September 30, 2003, approximately 1,825,730 options and 100,000 warrants were excluded from the calculation of dilutive shares, as the effect of inclusion would have been antidilutive.

5. Geographic Segment and Data

The Company generates substantially all revenues from the design, assembly, marketing and distribution of premium quality, technologically innovative golf clubs and accessories. The Company's products are distributed in both domestic and international markets. Net sales by customer for these markets consisted of the following during the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(unaudited)		(unaudited)	
United States	$ 10,369	$ 8,971	$ 42,856	$ 37,611
Rest of World	581	663	5,587	5,348
Total Net Revenue	$ 10,950	$ 9,634	$ 48,443	$ 42,959

6. Income Taxes

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion of all of the deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Due to the historical operating results of the Company, management is unable to conclude on a more likely than not basis that all deferred income tax assets generated through operating losses through 2002 will be realized. Accordingly, the Company has recognized a valuation allowance equal to the entire deferred income tax asset. Although the Company has carryforwards due to historical losses, current tax law for calculating Alternative Minimum Tax allows the Company to use carryforwards only up to 90% of annual liability. Accordingly, AMT tax expense for the nine months ended September 30, 2004 and 2003 was $86,000 and $0, respectively, and $0 for the three months ended September 30, 2004 and 2003.

7. Comprehensive Income

Comprehensive income for the nine months ended September 30, 2004 was approximately $4.6 million.

ADAMS GOLF, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. Stock Compensation

At September 30, 2004, the Company had one stock-based compensation plan that replaced four predecessor plans. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Under this method (the intrinsic method), compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price of the option. The Company has elected to continue to apply the intrinsic method of accounting for employee stock option grants and has adopted the SFAS No.148 disclosure requirements. Non-Employee option

grants are accounted for using the fair-value based method. The following table illustrates the effect on net income (loss) and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 *Accounting for Stock Based Compensation*, to stock-based employee compensation for the three and nine months ended September 30, 2004 and 2003 (in thousands, except for per share amounts):

	For the Three Months ended		For the Nine Months ended	
	2004	2003	2004	2003
Net income (loss) :				
As reported	$ 61	$ (343)	$ 4,634	$ 2,994
Add: Stock-based compensation expenses included in reported net income, net of related tax effects	199	82	507	394
Deduct: Total stock-based compensation expense determined under the fair value method	(114)	(90)	(424)	(414)
Pro forma	$ 146	$ (351)	$ 4,717	$ 2,974
Basic income (loss) per common share:				
As reported	$ 0.00	$ (0.02)	$ 0.21	$ 0.13
Pro forma	0.01	(0.02)	0.21	0.13
Diluted income (loss) per common share:				
As reported	$ 0.00	$ (0.02)	$ 0.18	$ 0.13
Pro forma	0.01	(0.02)	0.18	0.13

9. New Accounting Pronouncements

There have been no new material accounting pronouncements that are applicable to the Company's business for this period.

10. Liquidity

In February 2004, the Company terminated its revolving credit agreement with First Community Financial Corporation without any penalties or other fees. The credit agreement was no longer the most efficient source of working capital for the Company.

In February 2004, the Company entered into a revolving line of credit with Bank of Texas to provide up to $2.0 million in a short term credit facility, which is limited to 75% of the eligible accounts receivable and 10% of eligible inventory (the inventory portion of the facility is applicable only in the months of December, January and February). The line of credit is collateralized by all assets of the Company and requires the Company, among other things, to maintain certain financial performance levels relative to net worth and interest coverage ratio. Interest on the outstanding balances accrues at prime less one half percent and is due quarterly. Prime interest rate at November 8, 2004 was 4.75%. As of November 8, 2004, the Company did not have an outstanding balance under this credit facility.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. Liquidity (continued)

The Company's anticipated sources of liquidity over the next twelve months are expected cash reserves, projected cash flow from operations, and available borrowings under the Company's revolving credit facility. The adequacy of these available sources are dependent upon, among other things, consumer acceptance of the Company's products, the Company's ability to manage working capital requirements, changes in the current economic environment, and changes in the competitive landscape of the golf industry. These and other factors within and outside the Company's control could impact the Company's anticipated sources of liquidity, including, specifically, the projected amount of cash to be generated from operations in future periods. Management believes, however, that these sources of liquidity resulting from cash reserves and projected cash flows from operations should provide cash resources sufficient to meet the Company's requirements through the next twelve months. Should the Company at some point in the future require additional financing, no assurance can be given that any additional financing would be available on acceptable terms, or at all. Should the Company be unable to obtain additional financing, it may be required to further reduce costs associated with its current infrastructure, decrease spending on marketing and advertising campaigns, curtail component part purchasing and research and development programs and/or halt all other discretionary spending programs, any of which could reduce sales and adversely affect the Company's liquidity and operations.

It is anticipated that operating cash flows and current cash reserves should also fund capital expenditure programs. These capital expenditure programs can be suspended or delayed at any time with minimal disruption to the Company's operations if cash is needed in other areas of the Company's operations. In addition, cash flows from operations and cash reserves may be used to support ongoing purchases of component parts for the Company's current and future product lines. The expected operating cash flow, current cash reserves and borrowings available under its new credit facility are expected to allow the Company to meet working capital requirements during periods of low cash flows resulting from the seasonality of the golf industry.

Management believes that sufficient resources will be available to meet the Company's cash requirements through the next twelve months. Cash requirements beyond twelve months are dependent on the Company's ability to introduce products that gain market acceptance and to manage working capital requirements. The Company has introduced new products and has taken steps to increase the market acceptance of these and its other products. If the Company's products fail to achieve appropriate levels of market acceptance, it is possible that the Company may have to raise additional capital and/or further reduce its operating expenses including further operational restructurings, possibly during the next twelve months. The Company may need to raise additional funds through the issuance of equity securities, in which case the percentage ownership of the stockholders of the Company will be reduced, stockholders may experience additional dilution, or such equity securities may have rights, preferences or privileges senior to the Company's common stock. Nevertheless, given the current market price for the Company's common stock and the state of the capital markets generally, the Company does not expect that it will be able to raise funds through the issuance of its capital stock in the foreseeable future. The Company may also find it difficult to secure additional debt financing. There can be no assurance that financing will be available when needed on terms favorable to the Company, or at all. Accordingly, it is possible that the Company's only sources of funding are expected current cash reserves, projected cash flows from operations and up to $2.0 million of borrowings available under the new revolving credit facility, which has a term of one year ending in February, 2005.

ADAMS GOLF, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. Liquidity (continued)

If adequate funds are not available or not available on acceptable terms, the Company may be unable to continue operations; develop, enhance and market products; retain qualified personnel; take advantage of future opportunities; or respond to competitive pressures, any of which could have a material adverse effect on the Company's business, operating results, financial condition or liquidity.

11. Contingencies

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. Plaintiffs appealed. On August 25, 2004, the appellate court affirmed the dismissal of plaintiffs claims relating to oversupply of retail inventory, while reversing the claims relating to the impact of gray market sales and remanding those claims for further proceedings.

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, based on consultation with legal counsel, the Company believes that there are no matters pending or threatened which could reasonably be expected to have a material adverse effect on the Company's financial condition, results of operations and/or liquidity.

12. Subsequent Event

Tom Watson's existing endorsement contract expired during the quarter, and the Company is currently in the process of finalizing a continuation of that endorsement contract.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto, and with the Company's consolidated financial statements and

notes thereto for the year ended December 31, 2003 included in the Company's Annual Report on Form 10-K.

Forward Looking Statements

This Quarterly Report on Form 10-Q (this "Quarterly Report") contains "forward-looking statements" made under the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The statements include, but are not limited to: statements concerning the potential benefits to be achieved from our internal restructurings, statements regarding pending litigation, statements regarding liquidity and our ability to increase revenues or achieve satisfactory operational performance, statements regarding our ability to satisfy our cash requirements and our ability to satisfy our capital needs, including cash requirements during the next twelve months, statements regarding our ability to manufacture products commercially acceptable to consumers and, statements using terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "seek" or "believe". Such statements reflect the current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions related to certain factors including, without limitation, the following:

--Product development difficulties;
--Product approval and conformity to governing body regulations;
--Assembly difficulties;
--Product introductions;
--Patent infringement risks;
--Market demand and acceptance of products;
--The impact of changing economic conditions;
--The future market for our capital stock;
--The success of our marketing strategy;
--Our dependence on a limited number of customers;
--Business conditions in the golf industry;
--Reliance on third parties, including suppliers;
--The impact of market peers and their respective products;
--The actions of competitors, including pricing, advertising and product development risks concerning future technology; and
--The uncertainty of the results of pending litigation;
--The impact of operational restructuring on operating results and liquidity and one-time events and other factors detailed in this report under "Business Risks" below.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein. Except as required by federal securities laws, Adams Golf undertakes no obligation to publicly update or revise any written or oral forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Quarterly Report. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the applicable cautionary statements.

Overview

Founded in 1987, Adams Golf, Inc. 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 Adams Golf Idea, A1 and A1 Pro Irons and Idea i-Woods, the Tight Lies family of fairway woods and

drivers, 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-domiciled 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.

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 and mass merchandisers. 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.

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.

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 various vendors while continuing to ensure quality of components. The Company is continually re-evaluating existing vendors while testing potential new vendors for all the various product lines offered by the Company. At any time, the Company may purchase a substantial majority of its volume of a specific component part from a single vendor, but the Company continually strives to maintain a primary and several secondary suppliers for each component part. Substantially all of the Company's fairway wood, driver, iron, i-wood, wedge and putter component parts are manufactured in China and Taiwan.

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.

Costs of the Company's clubs consist primarily of component parts, including the head, shaft and grip. To a lesser extent, the Company's cost of goods sold includes contract labor, occupancy and shipping costs in connection with the inspection, testing, assembly and distribution of its products and certain promotional and advertising costs given in the form of additional merchandise as consideration to customers.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its results of operations, financial condition and liquidity are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances. Actual results may materially differ from these estimates under different assumptions or conditions. On an on-going basis, the Company reviews its estimates to ensure that the estimates appropriately reflect changes in its business.

Inventories

Inventories are valued at the lower of cost or market and primarily consist of finished golf clubs and component

parts. Cost is determined using the first-in, first-out method. The inventory balance, which includes material, labor and assembly overhead costs, is recorded net of an estimated allowance for obsolete inventory. The estimated allowance for obsolete inventory is based upon management's understanding of market conditions and forecasts of future product demand. If the actual amount of obsolete inventory significantly exceeds the estimated allowance, the Company's costs of goods sold and gross profit would be significantly adversely affected.

Revenue Recognition

The Company recognizes revenue when the product is shipped. At that time, the title and risk of loss transfer to the customer, and collectability is reasonably assured. Collectability is evaluated on an individual customer basis taking into consideration historical payment trends, current financial position, results of independent credit evaluations and payment terms. Additionally, an estimate of product returns and warranty costs are recorded when revenue is recognized. Estimates are based on historical trends taking into consideration current market conditions. The Company also records estimated reductions in revenue for sales programs such as co-op advertising and spiff incentives. If actual sales returns and sales programs significantly exceed the recorded estimated allowances, the Company's sales would be adversely affected.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. An estimate of uncollectable amounts is made by management based upon historical bad debts, current customer receivable balances and aging, the customer's financial condition and current economic conditions. If a significant number of customers with significant receivable balances in excess of the allowance fail to make required payments, the Company's operating results would be significantly adversely affected.

Product Warranty

The Company's golf equipment is sold under warranty against defects in material and workmanship for a period of one year with the exception of the graphite tipped (GT) and BiMatrx steel tipped (ST) shafts which carry a five year warranty. An allowance for estimated future warranty costs is recorded in the period products are sold. In estimating its future warranty obligations, the Company considers various relevant factors, including the Company's stated warranty policies, the historical frequency of claims, and the cost to replace or repair the product.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted rates recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the realizability of deferred income tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Due to the historical operating results of the Company, management is unable to conclude on a more likely than not basis that all deferred income tax assets generated from net operating losses through December 31, 2002 will be realized. Accordingly, the Company has recognized a valuation allowance equal to the entire deferred income tax asset.

Impairment of Long-Lived Assets

The Company follows the guidance in SFAS 144 in reviewing long-lived assets and certain identifiable intangibles for

impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During the quarter ended September 30, 2004, there was no impairment of long-lived assets.

Key Performance Indicators

The Company's management team has defined and tracks performance against several key sales, operational and balance sheet performance indicators. Key sales performance indicators include, but are not limited to:

--Daily sales by product group
--Daily sales by geography
--Sales by customer channel
--Gross margin performance

Tracking these sales performance indicators on a regular basis allows the Company to understand whether it is on target to achieve its internal sales plans.

Key operational performance indicators include, but are not limited to:

--Product returns (dollars and percentage of sales)
--Product credits (dollars and percentage of sales)
--Units shipped per man-hour worked
--Orders shipped on time
--Expenses by department
--Freight cost by mode (dollars and dollars per unit)

Tracking these operational performance indicators on a regular basis allows the Company to understand whether it will achieve its expense targets and efficiently satisfy customer demand.

Key balance sheet performance indicators include, but are not limited to:

--Days of sales outstanding
--Days of inventory (at cost)
--Days of payables outstanding

Tracking these balance sheet performance indicators on a regular basis allows the Company to understand its working capital performance and forecast cash flow and liquidity.

Results of Operations

The following table sets forth operating results expressed as a percentage of net sales for the periods indicated. All information is derived from the accompanying unaudited condensed consolidated financial statements. Results for any one or more periods are not necessarily indicative of annual results or continuing trends. See "Business Risks - Seasonality and Quarterly Fluctuations" below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(unaudited)		(unaudited)	
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	54.8	56.4	49.5	53.3
Gross profit	45.2	43.6	50.5	46.7
Operating expenses:				
Research and development expenses	4.1	4.7	2.8	3.0
Sales and marketing expenses	25.7	28.4	26.6	26.0
General and administrative expenses:				
Provision for bad debts	2.5	2.0	2.8	1.5
Other	12.5	13.5	8.8	9.5
Restructuring expense	--	(2.7)	--	(0.6)
Total operating expenses	44.8	45.9	41.0	39.4
Interest income (expense), net	0.2	(0.3)	0.1	(0.2)
Other income (expense), net	0.2	(0.9)	0.2	0.1
Income (loss) before income taxes	0.8	(3.5)	9.8	7.2
Income tax expense	0.2	0.1	0.2	0.2
Net income (loss)	0.6 %	(3.6)%	9.6 %	7.0 %

Three Months Ended September 30, 2004 Compared to Three Months Ended September 30, 2003

Total net sales increased 13.7% to $10.9 million for the three months ended September 30, 2004 from $9.6 million for the comparable period of 2003. The increase is primarily attributable to the successful product introduction and customer acceptance of the Ovation fairway woods, which were introduced in the first quarter of this year and continued strong sales of the Adams Idea Irons, which were introduced in the fall of 2002.

Net sales of drivers decreased to $2.1 million, or 19.3% of total net sales, for the three months ended September 30, 2004 from $2.4 million, or 24.6% of total net sales, for the comparable period of 2003. A large portion of the driver net sales for the three month period ended September 30, 2004 was generated by the Redline driver product line (which was launched in the first quarter of 2003) and the Tight Lies GT driver product line. Net sales of irons increased to $4.8 million, or 43.8% of total net sales, from $3.8 million, or 39.4% of total net sales, for the three month periods ended September 30, 2004 and 2003, respectively, primarily generated from sales of the Company's Idea irons and integrated iron sets. Net sales of fairway woods increased to $4.0 million, or 36.9% of total net sales, from $3.4 million, or 35.1% of total net sales, for the three month periods ended September 30, 2004 and 2003, respectively. The increase is primarily attributable to the recently introduced Ovation fairway woods partially offset by lower net sales of maturing product lines.

For the three months ended September 30, 2004, four customers comprised approximately 25% of net sales while three customers individually represented greater than 5% but less than 10% of total net sales. No individual customer represented greater than 10% of net sales. Should these customers or the Company's other customers fail to meet their obligations to the Company, the Company's results of operations and cash flows would be adversely impacted.

Net sales of the Company's products outside the U.S. decreased to $0.6 million, or 5.3% of total net sales, from $0.7 million, or 6.9% of total net sales, for the three months ended September 30, 2004 and 2003, respectively.

Cost of goods sold, as a percentage of total net sales, decreased to 54.8% for the three months ended September 30, 2004 from 56.4% for the comparable period of 2003. The decrease as a percentage of total net sales is primarily due to changes in the product mix to products yielding higher gross margins.

Selling and marketing expenses, as a percentage of total net sales, decreased to 25.7% from 28.4% for the three months ended September 30, 2004 and 2003, respectively. Selling and marketing expenses were $2.8 million for the three months ended September 30, 2004, and $2.7 million for the comparable period in 2003. The dollar increase is primarily the result of additional advertising costs largely related to the promotion and continued support for the Adams Ovation, Idea and Redline product lines coupled with increased commission expenses related to the increased sales volume.

General and administrative expenses, including provisions for bad debts, increased to $1.6 million for the three months ended September 30, 2004, from $1.5 million for the comparable period in 2003.

Research and development expenses, primarily consisting of costs associated with development of new products, were $0.4 million for the three months ended September 30, 2004, compared to $0.4 million for the same period of 2003.

As a result, the Company reported net income of $0.1 million for the three months ended September 30, 2004, compared to net loss of $0.3 million for the three months ended September 30, 2003.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

Total net sales increased 12.8% to $48.4 million for the nine months ended September 30, 2004 from $43.0 million for the comparable period of 2003. The increase is primarily attributable to the successful product introduction and customer acceptance of the Ovation fairway woods, which were introduced in the first quarter of this year, and continued strong sales of the Adams Idea Irons that were introduced in the fall of 2002.

Net sales of drivers decreased to $8.6 million, or 17.7% of total net sales, for the nine months ended September 30, 2004 from $9.5 million, or 22.2% of total net sales, for the comparable period of 2003. A large portion of the driver net sales for the nine month period ended September 30, 2004 was generated by the Redline driver product line, which was launched in the first quarter of 2003, and the Tight Lies GT driver product line. Net sales of irons increased to $19.5 million, or 40.3% of total net sales, from $16.5 million, or 38.5% of total net sales, for the nine month period ended September 30, 2004 and 2003, respectively, primarily generated from sales of the Company's Idea irons and integrated iron sets. Net sales of fairway woods increased to $18.6 million, or 38.4% of total net sales, from $15.1 million, or 35.1% of total net sales, for the nine month period ended September 30, 2004 and 2003, respectively. The increase is primarily attributable to the recently introduced Ovation fairway woods partially offset by lower net sales of maturing product lines.

For the nine months ended September 30, 2004, five customers comprised approximately 24% of net sales while one customer individually represented greater than 5% but less than 10% of total net sales. No individual customer represented greater than 10% of net sales. Should these customers or the Company's other customers fail to meet their obligations to the Company, the Company's results of operations and cash flows would be adversely impacted.

Net sales of the Company's products outside the U.S. increased to $5.6 million, or 11.5% of total net sales, from $5.3 million, or 12.4% of total net sales, for the nine months ended September 30, 2004 and 2003, respectively.

Cost of goods sold, as a percentage of total net sales, decreased to 49.5% for the nine months ended September 30, 2004 from 53.3% for the comparable period of 2003. The decrease as a percentage of total net sales is primarily due to changes in the product mix to products yielding higher gross margins.

Selling and marketing expenses, as a percentage of total net sales, increased to 26.6% from 26.0% for the nine months ended September 30, 2004 and 2003, respectively. Selling and marketing expenses were $12.9 million for the nine months ended September 30, 2004, and $11.2 million for the comparable period in 2003. The dollar increase is primarily the result of additional advertising costs largely related to the promotion and continued support for the Adams Ovation, Idea and Redline product lines coupled with increased commission expenses related to the increased sales volume.

General and administrative expenses, including provisions for bad debts, increased to $5.6 million for the nine months ended September 30, 2004, from $4.7 million for the comparable period in 2003. The increase in administrative related costs is primarily attributable to the Company's continued efforts to strengthen bad debt reserves.

Research and development expenses, primarily consisting of costs associated with development of new products, were $1.3 million for the nine months ended September 30, 2004, compared to $1.3 million for the same period of 2003.

The Company's inventory balances were approximately $10.2 million and $8.1 million at September 30, 2004, and December 31, 2003, respectively. The increase in inventory levels is primarily a result of the seasonality of the business. Inventory of our recently released products, including the Ovation Fairway wood and the integrated wood and iron sets, also drive the overall increase in inventory.

The Company's accounts receivable balances were approximately $10.7 million and $10.4 million at September 30, 2004, and December 31, 2003, respectively. The increase is primarily due to the overall increase in revenues of 13% coupled with the seasonality of the business, as a large portion of sales are generated in the first and second quarters of the year.

The Company's accounts payable balances were approximately $2.0 million and $1.2 million at September 30, 2004, and December 31, 2003, respectively. The increase in accounts payable is primarily associated with the extension of payment terms with key vendors.

As a result, the Company reported net income of $4.6 million for the nine months ended September 30, 2004, compared to net income of $3.0 million for the nine months ended September 30, 2003.

Liquidity and Capital Resources

Cash and cash equivalents increased to $14.1 million at September 30, 2004 from $10.1 million at December 31, 2003. The increase is primarily due to cash provided by operating activities of $4.3 million. During the nine months ended September 30, 2004, accounts receivable increased $0.3 million, due primarily to an increase in sales, and inventory increased $2.1 million. These increases were partially offset by an increase in accrued expenses and accounts payable of $1.0 million primarily associated with the extension of payment terms with key vendors.

In February 2004, the Company terminated its revolving credit agreement with First Community Financial Corporation without any penalties or other fees. The credit agreement was no longer the most efficient source of working capital for the Company.

In February 2004, the Company entered into a revolving line of credit with Bank of Texas to provide up to $2.0 million in a short term credit facility, which is limited to 75% of the eligible accounts receivable and 10% of eligible inventory (the inventory portion of the facility is applicable only in the months of December, January and February). The line of credit is collateralized by all assets of the Company and requires the Company, among other things, to maintain certain financial performance levels relative to net worth and interest coverage ratio. Interest on the outstanding balances accrues at prime less one half percent and is due quarterly. Prime interest rate at November 8, 2004 was 4.75%. As of November 8, 2004, the Company did not have an outstanding balance under the credit facility.

Working capital increased at September 30, 2004 to $27.1 million compared to $21.9 million at December 31, 2003. Approximately 30% of the Company's current assets are comprised of accounts receivable. Due to industry sensitivity to consumer buying trends and available disposable income, the Company has in the past extended payment terms for specific purchase transactions. 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. The Company generates cash flow from operations primarily by collecting outstanding trade receivables. Because the Company has limited cash reserves, if collections of a significant portion of trade receivables are unexpectedly delayed, the Company would have a limited amount of funds available to further expand production until such time as the Company could collect a significant portion of the trade receivables. If the Company's cash needs in the near term exceed the available cash and cash equivalents on hand, and the available borrowing under the credit facility, the Company would be required to obtain additional financing or limit expenditures to the extent of available cash on hand, all of which could significantly adversely effect the Company's current growth plans and result in a material adverse effect on the Company's results of operations, financial condition and/or liquidity.

The Company's anticipated sources of liquidity over the next twelve months are expected to be cash reserves, projected cash flows from operations, and available borrowings under its new credit facility. The Company anticipates that operating cash flows and current cash reserves will also fund capital expenditure programs. These capital expenditure programs can be suspended or delayed at any time with minimal disruption to the Company's operations if cash is needed in other areas of the Company's operations. In addition, cash flows from operations and

cash reserves will be used to support ongoing purchases of component parts for the Company's current and future product lines. The expected operating cash flow, current cash reserves and borrowings available under its new credit facility are expected to allow the Company to meet working capital requirements during periods of low cash flows resulting from the seasonality of the industry.

Management believes that sufficient resources will be available to meet the Company's cash requirements through the next twelve months. Cash requirements beyond twelve months are dependent on the Company's ability to introduce products that gain market acceptance and to manage working capital requirements. The Company has introduced new products and has taken steps to increase the market acceptance of these and its other products. If the Company's products fail to achieve appropriate levels of market acceptance, it is possible that the Company may have to raise additional capital and/or further reduce its operating expenses including further operational restructurings, possibly during the next twelve months. The Company may need to raise additional funds through the issuance of equity securities, in which case the percentage ownership of the stockholders of the Company will be reduced, stockholders may experience additional dilution, or such equity securities may have rights, preferences or privileges senior to the Company's common stock. Nevertheless, given the current market price of the Company's common stock and the state of the capital markets generally, the Company does not expect that it will be able to raise funds through the issuance of its capital stock in the foreseeable future. The Company may also find it difficult to secure additional debt financing. There can be no assurance that financing will be available when needed on terms favorable to the Company, or at all. Accordingly, it is possible that the Company's only sources of funding are current cash reserves, projected cash flows from operations and up to $2.0 million of borrowings available under the new revolving credit facility, which has a term of one year ending in February, 2005.

If adequate funds are not available or not available on acceptable terms, the Company may be unable to continue operations; develop, enhance and market products; retain qualified personnel; take advantage of future opportunities; or respond to competitive pressures, any of which could have a material adverse effect on the Company's business, operating results, financial condition and/or liquidity.

Business Risks

As indicated below, this Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The Company's actual results may differ materially from the results discussed in the forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in this section and elsewhere throughout this Form 10-Q.

Need for Additional Capital

Management believes that sufficient resources will be available to meet the Company's cash requirements through the next twelve months, based upon, among other things, management's estimates regarding the collectability of outstanding accounts receivable, projected cash flow from operations and anticipated expenditures. However, no assurances can be given that the Company will have sufficient cash resources beyond twelve months. To the extent our cash requirements or assumptions change, the Company may have to raise additional capital and/or further reduce its operating expenses, including further operational restructurings. The Company may need to raise additional funds through the issuance of equity securities, in which case the percentage ownership of the stockholders of the Company would be reduced, stockholders may experience additional dilution, and/or such equity securities may have rights, preferences or privileges senior to the Company's common stock. Nevertheless, given the current market price for the Company's common stock and the state of the capital markets generally, the Company does not expect that it would be able to raise funds through the issuance of its capital stock in the foreseeable future. The Company may also find it difficult to secure additional debt financing. There can be no assurance that financing will be available if needed on terms favorable to the Company, or at all. Accordingly, it is possible that the only sources of funding are current cash reserves, projected cash flows from operations and up to $2.0 million of borrowings available under the Company's revolving credit facility.

Future Market for Capital Stock

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 OTC Bulletin Board (OTCBB). The OTCBB is a regulated quotation service that displays real-time quotes, last-sales prices and volume information for eligible securities.

Our listing on the OTCBB 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.

Dependence on New Product Introductions; Uncertain Consumer Acceptance

Although some of the Company's new product introductions have experienced market success, the Company's ultimate success depends, in large part, on its ability to successfully develop and introduce new products widely accepted in the marketplace. Historically, a large portion of new golf club technologies and product designs have been met with consumer rejection. Certain products previously introduced by the Company have not met the level of consumer acceptance anticipated by management. No assurance can be given that the Company's current or future products will be met with consumer acceptance. Failure by the Company to timely identify and develop innovative new products that achieve

widespread market acceptance would adversely affect the Company's continued success and viability. Additionally, successful technologies, designs and product concepts are likely to be copied by competitors. Accordingly, the Company's operating results could fluctuate as a result of the amount, timing, and market acceptance of new product introductions by the Company or its competitors. The design of new golf clubs is also greatly influenced by the rules and interpretations of the USGA. Although the golf equipment standards established by the USGA generally apply only to competitive events sanctioned by the organization, the Company believes that it is critical for its future success that new clubs introduced by the Company comply with USGA standards.

Uncertainty Regarding Continuation of Profitability

While the Company generated income during the year ended December 31, 2003 and the nine months ended September 30, 2004, it has not done so historically. There can be no assurance that the Company will be able to increase or maintain revenues or continue such profitability on a quarterly or annual basis in the future. An inability to continue such improvements in the Company's financial performance could jeopardize the Company's ability to develop, enhance, and market products, retain qualified personnel, and take advantage of future opportunities or respond to competitive pressures.

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-Salomon 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 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, several competitors introduced products similar to the Tight Lies fairway woods. Should the Company's recently introduced product lines achieve widespread market success, it is reasonable to expect that the Company's current and future competitors would move quickly to introduce similar products that would directly compete with the new product lines. 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 Ovation Fairway woods and Redline product line of fairway woods and drivers were introduced, older product lines such as the original Tight Lies and Tight Lies ST fairway woods and drivers experienced reductions in price at both wholesale and retail levels.

Dependence on Key Personnel and Endorsements

The Company's success depends to an extent upon the performance of its management team, which includes the Company's Chief Executive Officer and President, Oliver G. (Chip) Brewer, III, who participates in all aspects of the Company's operations, including product development and sales efforts. The loss or unavailability of Mr. Brewer could adversely affect the Company's business and prospects. In addition, Mr. Tim Reed joined the management team in 2001 in the capacity of Vice President of Research and Development. Mr. Reed's inability to continue to develop innovative products could also adversely affect the Company's business. With the exception of the Company's Chairman of the Board of Directors, B.H. (Barney) Adams, and Mr. Brewer, none of the Company's officers and employees are bound by employment agreements, and the relations of such officers and employees are, therefore, at will. The Company established key-men life insurance policies on the lives of Mr. Brewer and Mr. Reed; however, there can be no assurance that the proceeds of these policies could adequately compensate the Company for the loss of their services. In addition, there is strong competition for qualified personnel in the golf club industry, and the inability to continue to attract, retain and motivate other key personnel could adversely affect the Company's business, operating results or financial condition.

The Company believes that acceptance of its products by touring professionals is an important aspect of its marketing strategy and ultimately validates the products in the mind of the consumer. In the past, the Company has entered into endorsement arrangements with certain members of the PGA Tour and the Champions PGA Tour, including Tom Watson, D.A. Weibring, Larry Nelson and other notable players. The loss of one or more of these endorsement arrangements could adversely affect the Company's marketing and sales efforts and, accordingly, its business,

operating results or financial condition. From time to time, the Company is negotiating with and signing endorsement contracts with either existing or new tour players. As is typical in the golf industry generally, the agreements with these professional golfers do not necessarily require that they use the Company's golf clubs at all times during the terms thereof, including, in certain circumstances, at times when the Company is required to make payments to them. The failure of certain individuals to use the Company's products on one or more occasions has resulted in negative publicity involving the Company. While the Company does not believe this publicity has resulted in any significant erosion in the net sales of the Company's products to date, no assurance can be given that the Company's business would not be adversely affected in a material way by further such publicity or by the failure of its known professional endorsers to carry and use the Company's products.

Change in Marketing Strategy

Before 2001, the Company relied on infomercials or broad, brand-based advertising as the cornerstone of its marketing strategy. During 2001, the Company modified its marketing strategy to focus principally on golf related events and publications. For the years ended December 31, 2003, 2002 and 2001, the Company spent approximately $3.5 million, $2.6 million and $8.2 million, respectively, on golf related events and publications. The Company has significantly reduced its expenditures in this category from historical periods. This reduction could have a material adverse effect on the Company's operating results and/or financial condition. Additionally, there can be no assurances that a decrease in the levels of advertising will not result in a material decline in sales of the Company's products.

Source of Supply

The Company has put into place a purchasing procedure that strives to negotiate effective terms with various vendors while continuing to ensure quality of components. The Company is continually re-evaluating existing vendors while testing potential new vendors for all the various product lines offered by the Company. At any time, the Company may purchase a substantial majority of its volume of a specific component part from a single vendor, but the Company continually strives to maintain a primary and several secondary suppliers for each component part. Substantially all of the Company's fairway wood, driver, iron, i-wood, wedge and putter component parts are manufactured in China and Taiwan.

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, including supply from any sole supplier.

Product Warranties

The Company provides a limited one year product warranty on all of its golf clubs with the exception of the graphite tip (GT) and BiMatrx steel tip (ST) shafts used in a variety of the Company's product lines. These shafts carry a five year warranty for defects in quality and workmanship. The Company closely monitors the level and nature of warranty claims, and, where appropriate, seeks to incorporate design and production changes to assure its customers of the highest quality available in the market. Significant increases in the incidence of such claims may adversely affect the Company's sales and its reputation with golfers. The Company establishes a reserve for warranty claims, which it believes is sufficient to meet future claims. However, there can be no assurance that these reserves will be sufficient if the Company were to experience an unusually high incidence of problems with its products.

Risks Associated with Intellectual Property

Imitation of popular club design is widespread in the golf industry. No assurance can be given that other golf club manufacturers will not be able to successfully sell golf clubs that imitate the Company's products without infringing on the Company's copyrights, patents, trademarks or trade dress. Many of the Company's competitors have obtained patent, trademark, copyright or other protection of intellectual property rights pertaining to golf clubs. No assurance can be given that the Company will not be adversely affected by the assertion by competitors that the Company's designs infringe on such competitor's intellectual property rights. This effect could include alteration or withdrawal of the Company's existing products and delayed introduction of new products.

The Company attempts to maintain the secrecy of its confidential business information, including engaging in the practice of having prospective vendors and suppliers sign confidentiality agreements when producing components of new technology. No assurance can be given that the Company's confidential business information will be adequately protected in all instances. The unauthorized use of the Company's confidential business information could adversely affect the Company.

Unauthorized Distribution and 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 unapproved retailers conducting business on 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 and/or competitive position, although there can be no assurance as to future results.

Industry Specific Requirements

The Company performs ongoing credit evaluation 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 December 31, 2002, respectively.

Certain Risks of Conducting Business Abroad

The Company imports a significant portion of its component parts, including heads, shafts, headcovers, and grips from companies in Taiwan, China and Mexico. In addition, the Company sells its products to certain distributors located outside the United States. The Company's international business is currently centered in Canada and Europe and management intends to focus its international efforts through agency and distributor relationships. The Company's business is subject to the risks generally associated with doing business abroad, such as foreign government relations, foreign consumer preferences, import and export control, political unrest, disruptions or delays in shipments and changes in economic conditions and exchange rates in countries in which the Company purchases components or sells its products. Recent foreign events, including, without limitation, continuing U.S. military operations and the resulting instability in Iraq, could potentially cause a delay in imports or exports due to heightened security with customs.

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. In addition, net sales of golf clubs are 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/or 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; demand for and market acceptance of 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 which can be fulfilled in a quarter. Any one or more of these factors could adversely affect the Company 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 that could materially adversely affect 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 and/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 in this report, 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.

Anti-Takeover Provisions

The Company's Certificate of Incorporation and Amended and Restated Bylaws (the "Bylaws") contain, among other things, provisions establishing a classified Board of Directors, authorizing shares of preferred stock with respect to which the Board of Directors of the Company has the power to fix the rights, preferences, privileges and restrictions without any further vote or action by the stockholders, requiring that all stockholder action be taken at a stockholders' meeting and establishing certain advance notice requirements in order for stockholder proposals or director nominations to be considered at such meetings. In addition, the Company is subject to the anti-takeover provisions of Section 203 of the

Delaware General Corporation Law (the "DGCL"). In general this statute prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Such provision could delay, deter or prevent a merger, consolidation, tender offer, or other business combination or change of control involving the Company that some or a majority of the Company's stockholders might consider to be in its best interest, including offers or attempted takeovers that might otherwise result in such stockholders receiving a premium over the market price for the common stock. The potential issuance of preferred stock may have the effect of delaying, deferring or preventing a change of control of the Company, may discourage bids for the common stock at a premium over the market price of the common stock and may adversely affect the market price of and voting and other rights of the holders of the common stock. The Company has not issued and currently has no plans to issue shares of preferred stock.

Item 4. Controls and Procedures

The Company evaluated, under supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) promulgated under the Securities Exchange Act of 1934, as amended. Based upon our evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in our periodic SEC filings. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation. In addition, it is the Company's policy to not participate in off-balance sheet transactions, including but not limited to special purpose entities.

PART II. OTHER INFORMATION

Item 1. 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. Plaintiffs appealed. On August 25, 2004, the appellate court affirmed the dismissal of plaintiffs claims relating to oversupply of retail inventory, while reversing the claims relating to the impact of gray market sales and remanding those claims for further proceedings.

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, the Company believes that there are no matters pending or threatened which could reasonably be expected to have a material adverse effect on the Company's financial condition, results of operations and/or liquidity.

Item 6(a). Exhibits

See exhibit index on pages 31-32.

Item 6(b). Reports on Form 8-K

None.

Signatures

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

ADAMS GOLF, INC.

Date: November 10, 2004	By: /S/ OLIVER G. BREWER III Oliver G. Brewer, III Chief Executive Officer and President
Date: November 10, 2004	By: /S/ ERIC LOGAN Eric Logan Chief Financial Officer (Principal Financial Officer)
Date: November 10, 2004	By: /S/ PAMELA J. HIGH Pamela J. High Controller (Principal Accounting Officer)

EXHIBIT INDEX

Exhibit 3.1	Amended and Restated Certificate of Incorporation	Incorporated by reference to Form S-1 File No. 333-51715 (Exhibit 3.1)
Exhibit 3.2	Amended and Restated By-laws	Incorporated by reference to Form S-1 File No. 333-51715 (Exhibit 3.2)
Exhibit 3.3	Amended and Restated Audit Committee charter	Incorporated by reference to Annex A of the 2004 Proxy Statement (Annex A)
Exhibit 4.1	1998 Stock Incentive Plan of the Company dated February 26, 1998, as amended	Incorporated by reference to Form S-8 File No. 333-68129 (Exhibit 4.1)
Exhibit 4.2	1996 Stock Option Plan dated April 10,	Incorporated by reference to Form

	1998	S-1 File No.333-51715 (Exhibit 4.2)
Exhibit 4.3	Adams Golf, Ltd. 401(k) Retirement Plan	Incorporated by reference to Form S-1 File No.333-51715 (Exhibit 4.3)
Exhibit 4.4	1999 Non-Employee Director Plan of Adams Golf, Inc.	Incorporated by reference to 1999 Form 10-K (Exhibit 4.4)
Exhibit 4.5	1999 Stock Option Plan for Outside Consultants of Adams Golf, Inc.	Incorporated by reference to Form S-8 File No. 333-37320 (Exhibit 4.5)
Exhibit 4.6	2002 Adams Golf Equity Incentive Plan	Incorporated by reference to Annex A of the 2002 Proxy Statement (Annex A)
Exhibit 4.7	Form of Option Agreement under the 2002 Stock Option Plan of Adams Golf, Inc.	Incorporated by reference to Form S-8 February 9, 2004 File No. 333-112622 (Exhibit 4.7)
Exhibit 10.1	Agreement between the Registrant and Nick Faldo, dated April 22, 1998	Incorporated by reference to Form S-1 File No.333-51715 (Exhibit 10.1)
Exhibit 10.2	Commercial Lease Agreement dated December 5, 1997, between Jackson-Shaw Technology Center II and the Company	Incorporated by reference to Form S-1 File No.333-51715 (Exhibit 10.3)
Exhibit 10.3	Commercial Lease Agreement dated April 6, 1998, between Jackson-Shaw Technology Center II and the Company	Incorporated by reference to Form S-1 File No.333-51715 (Exhibit 10.4)
Exhibit 10.4	Amended Commercial Lease Agreement dated April 6, 1998 between Jackson-Shaw Technology Center II and the Company	Incorporated by reference to 2000 Form 10-K (Exhibit 10.18)
Exhibit 10.5	Settlement Agreement between Adams Golf, Ltd. And Nicholas A. Faldo	Incorporated by reference to the Quarterly Report on From 10-Q for the quarter ended September 30, 2001 (Exhibit 10.19)
Exhibit 10.6	Employment Agreement - Oliver G. (Chip) Brewer	Incorporated by reference to 2001 Form 10-K (Exhibit 10.21)
Exhibit 10.7*	Golf Consultant Agreement - Thomas S. Watson	Incorporated by reference to 2001 Form 10-K (Exhibit 10.23)

Exhibit 10.8*	First Amendment to Golf Consultant Agreement - Thomas S. Watson	Incorporated by reference to 2002 Form 10-K (Exhibit 10.11)
Exhibit 10.9	Employment Agreement - Byron H. (Barney) Adams	Incorporated by reference to the Quarterly Report on From 10-Q for the quarter ended June 30, 2003 (Exhibit 10.13)
Exhibit 10.10	Change of Control Agreement - Eric Logan	Incorporated by reference to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (Exhibit 10.14)
Exhibit 10.11	Amendment dated September 1, 2003 to the Commercial Lease Agreement dated April 6, 1998, between Jackson-Shaw Technology Center II and the Company	Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2003 (Exhibit 10.12)
Exhibit 10.12	Termination Letter - Accounts Receivable Security Agreement between Adams Golf, Ltd and First Community Financial Corporation	Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2003 (Exhibit 10.13)
Exhibit 10.13	Revolving line of Credit between Adams Golf, Inc and Bank of Texas	Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2003 (Exhibit 10.14)
Exhibit 31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Included in this filing
Exhibit 32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Included in this filing

* The SEC has granted the Company's request for confidential treatment of certain portions of these agreements.