

ADAMS GOLF INC  
Form 10-Q  
November 08, 2005

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2005

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  
(State or other jurisdiction of incorporation or  
organization)

75-2320087  
(I.R.S. Employer Identification No.)

300 Delaware Avenue, Suite 572, Wilmington, Delaware  
(Address of principal executive offices)

19801  
(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.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act)  
 Yes  No

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

The number of outstanding shares of the registrant's common stock, par value \$.001 per share, was 22,730,153 on November 4, 2005.

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, December 31,	
	<u>2005</u>	<u>2004</u>
	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 13,309	\$ 16,367
Trade receivables, net of allowance for doubtful accounts of \$898 (unaudited) and \$746 in 2005 and 2004, respectively	14,088	9,317
Inventories	13,024	11,558
Prepaid expenses	2,457	234
Other current assets	<u>17</u>	<u>138</u>
Total current assets	42,895	37,614
Property and equipment, net	661	720
Other assets, net	<u>24</u>	<u>44</u>
	\$ 43,580	\$ 38,378

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 5,379	\$ 3,876
Accrued expenses	<u>5,946</u>	<u>7,584</u>
Total current liabilities	11,325	11,460
Other non-current liabilities	<u>4</u>	<u>480</u>
Total liabilities	<u>11,329</u>	<u>11,940</u>

Stockholders' equity:

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Preferred stock, \$0.01 par value; authorized 5,000,000 shares; none issued	--	--
Common stock, \$.001 par value; authorized 50,000,000 shares; 23,387,653 and 23,257,653 shares issued and 22,730,153 and 22,600,153 shares outstanding at September 30, 2005 and December 31, 2004, respectively	23	23
Additional paid-in capital	92,068	90,261
Deferred compensation	(2,910)	(2,298)
Accumulated other comprehensive income (loss)	326	(25)
Accumulated deficit	(54,120)	(58,387)
Treasury stock, 657,500 common shares, at cost	<u>(3,136)</u>	<u>(3,136)</u>
Total stockholders' equity	<u>32,251</u>	<u>26,438</u>
	\$ 43,580	\$ 38,378

Contingencies

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,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net sales	\$ 10,180	\$ 10,950	\$ 46,769	\$ 48,443
Cost of goods sold	<u>6,027</u>	<u>5,999</u>	<u>24,734</u>	<u>23,963</u>
Gross profit	4,153	4,951	22,035	24,480
Operating expenses:				
Research and development expenses	598	450	1,725	1,339
Selling and marketing expenses	4,172	2,815	13,435	12,876
General and administrative expenses	1,649	1,641	5,474	5,617
Reversal of settlement expenses	<u>(1,788)</u>	<u>-</u>	<u>(1,771)</u>	<u>-</u>
Total operating expenses	<u>4,631</u>	<u>4,906</u>	<u>18,863</u>	<u>19,832</u>
Operating income (loss)	<u>(478)</u>	<u>45</u>	<u>3,172</u>	<u>4,648</u>
Other income (expense):				
Interest income (expense), net	68	16	154	9
Other income (expense), net (note 13)	<u>12</u>	<u>19</u>	<u>1,005</u>	<u>66</u>
Income (loss) before income taxes	(398)	80	4,331	4,723
Income tax expense	<u>6</u>	<u>19</u>	<u>64</u>	<u>89</u>

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Net income (loss)	\$ (404)	\$ 61	\$ 4,267	\$ 4,634
Net income (loss) per common share - basic	\$ (0.02)	\$ 0.00	\$ 0.19	\$ 0.21
diluted	\$ (0.02)	\$ 0.00	\$ 0.15	\$ 0.18

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, 2005  
(unaudited)

	Shares of Common <u>Stock</u>	Additional Common <u>Stock</u>	Additional Paid-in <u>Capital</u>	Deferred <u>Compensation</u>	Accumulated Other Comprehensive <u>Income (Loss)</u>	Accumulated <u>Deficit</u>	Comprehensive <u>Income</u>	Cost of <u>Treasury Stock</u>	Total Stockhold <u>Equity</u>
Balance, December 31, 2004	23,257,653	\$ 23	\$ 90,261	\$ (2,298)	\$ (25)	\$ (58,387)		\$ (3,136)	\$ 26,4
Comprehensive income:									
Net income	--	--	--	--	--	4,267	\$ 4,267	--	4,2
Foreign currency translation	--	--	--	--	351	--	<u>351</u>	--	3
Comprehensive income	--	--	--	--	--	--	\$ 4,618	--	
Stock option forfeitures			(8)	8					
Stock options exercised	130,000	--	38	--	--	--		--	
Issuance of stock options	--	--	1,777	(1,777)	--	--		--	
Amortization of deferred compensation	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,157</u>	<u>--</u>	<u>--</u>		<u>--</u>	<u>1,1</u>
Balance, September 30, 2005	23,387,653	\$ 23	\$ 92,068	\$ (2,910)	\$ 326	\$ (54,120)		\$ (3,136)	\$ 32,2

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,	
	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net income	\$ 4,267	\$ 4,634
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment and intangible assets	340	451
Amortization of deferred compensation	1,157	507
Provision for doubtful accounts	350	1,344
Income from insurance recoveries	(965)	--
Reversal of settlement expense	(1,771)	--
Changes in assets and liabilities:		
Trade receivables	(5,123)	(1,604)
Inventories	(1,466)	(2,163)
Prepaid expenses	(2,222)	171
Other current assets	123	(54)
Other assets	21	(29)
Accounts payable	1,502	811
Accrued expenses	<u>(326)</u>	<u>237</u>
Net cash provided by (used in) operating activities	(4,113)	4,305
Cash flows from investing activities:		
Purchases of equipment	(265)	(267)
Proceeds from insurance recoveries	<u>965</u>	<u>--</u>
Net cash provided by (used in) investing activities	700	(267)
Cash flows from financing activities:		
Principal payments under capital lease obligation	(32)	(50)
Exercise of stock options	38	8
Debt financing costs	<u>(2)</u>	<u>(15)</u>
Net cash provided by (used in) financing activities	4	(57)
Effects of exchange rate changes on cash and cash equivalents	<u>351</u>	<u>(42)</u>
Net increase (decrease) in cash and cash equivalents	(3,058)	3,939
Cash and cash equivalents at beginning of period	<u>16,367</u>	<u>10,135</u>
Cash and cash equivalents at end of period	\$ 13,309	\$ 14,074
Supplemental disclosure of cash flow information		
Interest paid	\$ 5	\$ 12
Income taxes paid	\$ 64	\$ 112
	\$ 15	\$ --

Supplemental disclosure of non-cash investing and financing activities -

Equipment financed with capital lease

See accompanying notes to unaudited condensed consolidated financial statements.

ADAMS GOLF, INC. AND SUBSIDIARIES

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, 2005 and 2004 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 2004 Annual Report on Form 10-K filed with the SEC on March 21, 2005.

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 RPM 460 Dual driver, RPM 430Q driver, Redline RPM fairway woods and drivers, Ovation fairway woods and drivers, the Adams Golf A2 and A2 OS Irons, Original Idea, A1 and A1 Pro Irons and i-Woods family, the Redline family of fairway woods and drivers, the Tight Lies family of fairway woods, the Tight Lies GT2 and GT irons and i-Woods, the Tom Watson signature series of wedges, 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.

2. Inventories

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

	September 30, <u>2005</u> (unaudited)	December 31, <u>2004</u>
Finished goods	\$ 6,039	\$ 8,119
Component parts	<u>6,985</u>	<u>3,439</u>
Total Inventory	\$ 13,024	\$ 11,558

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, <u>2005</u> (unaudited)	December 31, <u>2004</u>
Payroll and commissions	\$ 1,117	\$ 1,020
Advertising	248	130
Product warranty expense and sales returns	679	1,120
Professional services	72	59
Restructuring costs	71	71
Faldo settlement costs	--	1,322
Deferred revenue	2,063	1,317
Other	<u>1,696</u>	<u>2,545</u>
Total Accrued Liabilities	\$ 5,946	\$ 7,584

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 \$71,000 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. The Company owed two \$100,000 payments, one due at December 31, 2003 and one due at December 31, 2004. 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 has failed to meet the contract requirements, the payments were not made at December 31, 2003 or December 31, 2004. During September 2005, the Company determined that it was appropriate to reverse the settlement liability previously accrued. Accordingly, the Company reversed approximately \$1,339,000 and \$449,000 in accrued expenses and other non-current liabilities.

## ADAMS GOLF, INC. AND SUBSIDIARIES

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The weighted average common shares used for determining basic and diluted income (loss) per common share were 22,691,023 for the three months ended September 30, 2005, and 22,511,419 and 26,133,868, respectively, for the three months ended September 30, 2004. The effect of all warrants and options to purchase shares of the Company's common stock for the three months ended September 30, 2005 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



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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 the three months ended September 30, 2004, 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 weighted average common shares used for determining basic and diluted income per common share were 22,678,391 and 28,494,773 , respectively, for the nine months ended September 30, 2005 and 22,541,022 and 26,069,703, respectively, for the nine months ended September 30, 2004. The effect of all warrants and options to purchase shares of the Company's common stock for the nine months ended September 30, 2005 resulted in additional dilutive shares of 5,816,382. 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 3,528,681. For the nine months ended September 30, 2004, 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.

### 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,	
	<u>2005</u> (unaudited)	<u>2004</u>	<u>2005</u> (unaudited)	<u>2004</u>
United States	\$ 8,971	\$ 10,369	\$ 40,134	\$ 42,856
Rest of World	<u>1,209</u>	<u>581</u>	<u>6,635</u>	<u>5,587</u>
Total Net Sales	\$ 10,180	\$ 10,950	\$ 46,769	\$ 48,443

### 6. Income Taxes

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or 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 and other deferred tax assets 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 three months ended September 30, 2005 and 2004 was \$6,000 and \$19,000, respectively, and for the nine months ended September 30, 2005 and 2004 was \$64,000 and \$89,000, respectively.

## ADAMS GOLF, INC. AND SUBSIDIARIES

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7.

#### Reclassifications

Certain prior period amounts have been reclassified to conform to current period presentation.

### 8. Comprehensive Income

Comprehensive income for the nine months ended September 30, 2005 was approximately \$4.6 million.

## 9. Stock Compensation

At September 30, 2005, the Company had one stock-based option plan that replaced four predecessor plans. The Company accounts for the plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Under this method, compensation expense is recorded on the date of grant to the extent that the current market price of the underlying stock exceeds the exercise price. The Company has elected to continue to apply the intrinsic value-based method of accounting for employee stock option grants and complies with the disclosure requirements of SFAS No. 123 *Accounting for Stock-based Compensation* ("SFAS 123"), as amended by SFAS No. 148 *Accounting for Stock-based Compensation - Transition and Disclosure* ("SFAS 148"). Non-employee option grants are accounted for using the fair-value based method.

The following table illustrates the effect on net income (loss) and income (loss) per share if the Company had applied the fair value recognition provisions of SFAS 123 and SFAS 148 to stock-based employee compensation for the three and nine months ended September 30, 2005 and 2004, respectively (in thousands, except for per share amounts):

	<u>For the Three Months</u> <u>ended September 30,</u>		<u>For the Nine Months ended</u> <u>September 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net income (loss):				
As reported	\$ (404)	\$ 61	\$ 4,267	\$ 4,634
Add: Stock-based compensation expense included in reported net income (loss), net of related tax effects	324	199	1,157	507
Deduct: Total stock-based compensation expense determined under the fair value method	<u>(391)</u>	<u>(114)</u>	<u>(1,242)</u>	<u>(424)</u>
Pro forma	<u>\$ (471)</u>	<u>\$ 146</u>	<u>\$ 4,182</u>	<u>\$ 4,717</u>
	=====	=====	=====	=====
Basic income (loss) per common share:				
As reported	\$ (0.02)	\$ 0.00	\$ 0.19	\$ 0.21
Pro forma	(0.02)	0.01	0.18	0.21
Diluted income (loss) per common share:				
As reported	\$ (0.02)	\$ 0.00	\$ 0.15	\$ 0.18
Pro forma	(0.02)	0.01	0.15	0.18

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, which established accounting standards for transactions where the entity exchanges equity instruments for goods and services. The revision of this statement focuses on the accounting for transactions where the entity obtains employee services in share-based payment transactions. This statement revision eliminates the alternative use of APB 25 intrinsic value method and requires that entities adopt the fair-value method for all share-based transactions. The Company will adopt the provisions of this standard on a modified prospective basis in the first quarter of 2006, and the Company believes that the overall impact to the financial statements will not be material.

The Company is currently creating a plan to comply with section 409A of the Internal Revenue Service tax code by having the exercise date declared for all unvested stock options before December 31, 2005.

ADAMS GOLF, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. New Accounting Pronouncements

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

11. Liquidity

On April 13, 2005, the Company signed a new three year line of credit with Bank of Texas to provide up to \$5.0 million in short term debt, which is limited to 75% of the eligible accounts receivable and 10% of eligible inventory (the inventory coverage is applicable only in the months of December, January and February). The agreement is collateralized by all assets of the Company and requires, among other things, the Company to maintain certain financial performance levels relative to net worth and interest coverage ratio. Interest on outstanding balances accrues at prime less one half percent and is due quarterly. The prime interest rate at November 4, 2005 was 7.0%. As of September 30, 2005 and November 4, 2005, the Company did not have an outstanding loan against the credit facility.

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.

ADAMS GOLF, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. Liquidity (continued)

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 \$5.0 million of borrowings available under the revolving credit facility, which has a term of three years ending in April, 2008.

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.

## 12. 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, interest 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 dismissal of the claims relating to the impact of gray market sales and remanding those claims for further proceedings. This case is now in the discovery phase in the district court. As of November 1, 2005, the Company is in the process of mediation and at this time no resolution has been made.

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.

In November of 2004, an employee of a third party subcontracting company suffered a fatal injury while working in the Company's warehouse in Plano, Texas. On January 3, 2005, a suit was filed by decedent's family naming both the Company and the decedent's employer. The Company carried general liability insurance and tendered the suit under its policy. The Company's general liability insurance carrier accepted the tender and covered the suit. The Company and decedent's family settled the case on October 13, 2005.

## ADAMS GOLF, INC. AND SUBSIDIARIES

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 12. Contingencies (continued)

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 above actions.

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.

## 13. Investigation and Recovery Efforts Regarding Misappropriation of Funds

On December 30, 2004, the Company reported through a Form 8-K filing that the Company had uncovered evidence suggesting a former employee embezzled approximately \$970,000 between May, 2001 and November, 2004. The embezzled funds totaled approximately \$286,000, \$329,000, and \$288,000 for the years ended December 31, 2004, 2003 and 2002, respectively, and were expensed in the years incurred. During the three months ended September 30, 2004, embezzled funds totaled approximately \$101,000, and for the nine months ended September 30, 2004, embezzled funds totaled approximately \$240,000. The Company has involved its Audit Committee, its external auditors and outside legal counsel and believes that the extent of the fraud has been identified. The Company's insurance carrier has processed the claim under the Company's crime policy, and in March, 2005 the Company was granted a full recovery, less the deductible of \$5,000, totaling \$965,000, which is included in Other income on the Statement of Operations. The Company received the funds on March 30, 2005 and recorded the recovery in the financial results of the first quarter of 2005.

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, 2004 included in the Company's Annual Report on Form 10-K.

***Forward Looking Statements***

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;
- Uncertainty of ability to protect intellectual property rights;
- 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;
- The management of sales channels and re-distribution;
- The uncertainty of the results of pending litigation;
- The adequacy of the allowance for doubtful accounts and obsolete inventory; and
- The risk associated with the events unrecoverable under existing insurance policies;
- 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. (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 RPM 460 Dual driver, RPM 430Q driver, Redline RPM fairway woods and drivers, Ovation fairway woods and drivers, the Adams Golf A2 and A2 OS Irons, Original Idea, A1 and A1 Pro Irons and i-Woods family, the Redline family of fairway woods and drivers, the Tight Lies family of fairway woods, the Tight Lies GT2 and GT irons and i-Woods, the Tom Watson signature series of wedges, 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.

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 periodically reviews 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 the Company's 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 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 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 and resulting net income or loss 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, customer demands and product sell through. The Company also records estimated reductions in revenue for sales programs such as co-op advertising and spiff incentives. Estimates in the sales program accruals are based on program participation and forecast of future product demand. If actual sales returns and sales programs significantly exceed the recorded estimated allowances, the Company's sales would be adversely affected. The Company recognizes deferred revenue as a result of sales that have extended terms and a right of return of the product under a specified program. Once the product is paid for, the Company then records revenue.

### ***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. Based on management's assessment, the Company provides for estimated uncollectable amounts through a charge to earnings and a credit to the valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The Company generally does not require collateral.

### ***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. If the actual amount of warranty claims significantly exceeds the estimated allowance, the Company's costs of goods sold and gross profit

and resulting net income or loss would be significantly adversely affected.

### ***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 and other deferred tax assets 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 ("Statement of Financial Accounting Standards") 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 nine months ended September 30, 2005, 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 the following:

- 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 the following:

- 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 the following:

- 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,	
	<u>2005</u> (unaudited)	<u>2004</u>	<u>2005</u> (unaudited)	<u>2004</u>
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	<u>59.2</u>	<u>54.8</u>	<u>52.9</u>	<u>49.5</u>
Gross profit	40.8	45.2	47.1	50.5
Operating expenses:				
Research and development expenses	5.9	4.1	3.7	2.8
Sales and marketing expenses	41.0	25.7	28.7	26.6
General and administrative expenses	16.2	15.0	11.7	11.6
Reversal of settlement expenses	<u>(17.6)</u>	<u>--</u>	<u>(3.8)</u>	<u>--</u>
Total operating expenses	<u>45.5</u>	<u>44.8</u>	<u>40.3</u>	<u>41.0</u>
Interest income (expense), net	0.7	0.2	0.3	0.1
Other income (expense), net	<u>0.1</u>	<u>0.2</u>	<u>2.1</u>	<u>0.2</u>
Income (loss) before income taxes	(3.9)	0.8	9.2	9.8
Income tax expense	<u>0.1</u>	<u>0.2</u>	<u>0.1</u>	<u>0.2</u>
Net income (loss)	(4.0)%	0.6 %	9.1 %	9.6 %

### Three Months Ended September 30, 2005 Compared to Three Months Ended September 30, 2004

Total net sales decreased to \$10.2 million for the three months ended September 30, 2005 from \$11.0 million for the comparable period of 2004. Net sales of drivers increased to \$3.3 million, or 32.6% of total net sales, for the three months ended September 30, 2005 from \$2.1 million, or 19.3% of total net sales, for the comparable period of 2004. A large portion of the driver net sales for the three months ended September 30, 2005 was generated by the

RPM and Ovation driver product lines, introduced in the fourth quarter of 2004 and the first quarter of 2005, respectively, which was partially offset by lower sales of maturing product lines. Net sales of irons decreased to \$4.2 million, or 40.8% of total net sales, from \$4.8 million, or 43.8% of total net sales, for the three months ended September 30, 2005 and 2004, respectively, primarily generated from the recent introduction of Idea A2 and A2 OS irons during the third quarter of 2005, continued strength of the Idea irons product family, and the GT2 irons, partially offset by lower sales of maturing product lines. Net sales of fairway woods decreased to \$2.6 million, or 25.5% of total net sales, from \$4.0 million, or 36.9% of total net sales, for the three months ended September 30, 2005 and 2004, respectively, primarily resulting from the decline in sales of the Ovation family of fairway woods, which was introduced in the first quarter of 2004.

For the three months ended September 30, 2005, three customers comprised approximately 25% of net sales while two customers individually represented greater than 5% but less than 10% of total 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 \$1.2 million, or 11.9% of total net sales, from \$0.6 million, or 5.3% of total net sales, for the three months ended September 30, 2005 and 2004, respectively.

Cost of goods sold increased to \$6.0 million, or 59.2% of total net sales, for the three months ended September 30, 2005 from \$6.0 million, or 54.8% of total net sales, for the comparable period of 2004. The increase as a percentage of total net sales is primarily due to lower average selling prices of certain wood product lines.

Selling and marketing expenses increased to \$4.2 million for the three months ended September 30, 2005 from \$2.8 million for the comparable period in 2004. The increase is primarily the result of an increase in marketing related costs.

General and administrative expenses remained constant at \$1.6 million for the three months ended September 30, 2005 and the comparable period in 2004.

Research and development expenses, primarily consisting of costs associated with development of new products, were \$0.6 million and \$0.5 million for the three months ended September 30, 2005 and 2004, respectively.

During the three months ended September 30, 2005, the Company reversed settlement expense of \$1.8 million, which is attributable to the reversal of the accrued expenses for the settlement agreement that was reached with Mr. Nick Faldo in regards to the dispute regarding provisions of his prior professional services agreement with Adams Golf. Since Mr. Faldo did not perform the minimum requirements of his contract, the Company is no longer due to make any future payments.

As a result of the above, the Company reported operating loss of \$0.4 million for the three months ended September 30, 2005 compared to an operating income of \$0.1 million for the comparable period ended September 30, 2004.

#### **Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004**

Total net sales decreased to \$46.8 million for the nine months ended September 30, 2005 from \$48.4 million for the comparable period of 2004 primarily resulting from slower than anticipated sales of fairway woods. Net sales of drivers increased to \$14.5 million, or 31.1% of total net sales, for the nine months ended September 30, 2005 from \$8.6 million, or 17.7% of total net sales, for the comparable period of 2004. A large portion of the driver net sales for the nine months ended September 30, 2005 was generated by the RPM and Ovation driver product lines, introduced in the fourth quarter of 2004 and the first quarter of 2005, respectively, which was partially offset by lower sales of maturing product lines. Net sales of irons decreased to \$18.2 million, or 38.9% of total net sales, from \$19.5 million, or 40.3% of total net sales, for the nine months ended September 30, 2005 and 2004, respectively, primarily generated

from the recent introduction of Idea A2 and A2 OS irons during third quarter 2005, continued strength of the Idea product lines, and the GT2 irons, partially offset by lower sales of maturing product lines. Net sales of fairway woods decreased to \$12.4 million, or 26.4% of total net sales, from \$18.6 million, or 38.4% of total net sales, for the nine months ended September 30, 2005 and 2004, respectively, primarily resulting from the decline in sales of the Ovation family of fairway woods, which was introduced in the first quarter of 2004.

For the nine months ended September 30, 2005, four customers comprised approximately 25% of net sales while one customer individually represented greater than 5% but less than 10% of total 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 \$6.6 million, or 14.2% of total net sales, from \$5.6 million, or 11.5% of total net sales, for the nine months ended September 30, 2005 and 2004, respectively.

Cost of goods sold increased to \$24.7 million, or 52.9% of total net sales, for the nine months ended September 30, 2005 from \$24.0 million, or 49.5% of total net sales, for the comparable period of 2004. The increase as a percentage of total net sales is primarily due to lower average selling prices of certain wood product lines.

Selling and marketing expenses increased to \$13.4 million for the nine months ended September 30, 2005 from \$12.9 million for the comparable period in 2004. The increase is primarily the result of increased compensation costs associated with additions and retention of talented selling and marketing personnel.

General and administrative expenses decreased to \$5.5 million for the nine months ended September 30, 2005 from \$5.6 million for the comparable period in 2004.

Research and development expenses, primarily consisting of costs associated with development of new products, were \$1.7 million and \$1.3 million for the nine months ended September 30, 2005 and 2004, respectively.

During the nine months ended September 30, 2005, the Company reversed settlement expense of \$1.8, which is attributable to the reversal of the accrued expenses for the settlement agreement that was reached with Mr. Nick Faldo in regards to the dispute regarding provisions of his prior professional services agreement with Adams Golf. Since Mr. Faldo did not perform the minimum requirements of his contract, the Company is no longer due to make any future payments.

Other income increased to \$1.0 million for the nine months ended September 30, 2005 from \$0.0 million for the comparable period in 2004 which is attributable to the one time receipt by the Company of a \$965 insurance claim paid by the Company's insurance carrier in connection with the embezzlement occurrence referenced in Note 13 to the Unaudited Condensed Financial Statements.

The Company's inventory balances were approximately \$13.0 million and \$11.6 million at September 30, 2005 and December 31, 2004, respectively.

The Company's net accounts receivable balances were approximately \$14.1 million and \$9.3 million at September 30, 2005 and at December 31, 2004, respectively. The increase is primarily due to 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 prepaid balances were approximately \$2.5 million and \$0.2 million at September 30, 2005 and December 31, 2004, respectively. The increase in the prepaid asset is primarily associated with the Company's decision to prepay certain strategic marketing expenses.

The Company's accounts payable balances were approximately \$5.4 million and \$3.9 million at September 30, 2005

and December 31, 2004, respectively. The increase in accounts payable is primarily associated with the extension of payment terms with key vendors related to inventory purchases.

As a result of the above, the Company reported operating income of \$4.3 million for the nine months ended September 30, 2005 compared to \$4.6 million for the comparable period in 2004.

### **Liquidity and Capital Resources**

Cash and cash equivalents decreased to \$13.3 million at September 30, 2005 from \$16.4 million at December 31, 2004. The decrease is primarily due to cash used in operating activities of \$4.3 million. During the nine months ended September 30, 2005, accounts receivable increased \$5.1 million, inventory increased \$1.5 million and prepaid expenses increased \$2.2 million. These increases were slightly offset with an increase in accrued expenses and accounts payable of \$1.2 million.

On April 13, 2005, the Company signed a new three year line of credit with Bank of Texas to provide up to \$5.0 million in short term debt, which is limited to 75% of the eligible accounts receivable and 10% of eligible inventory (the inventory coverage is applicable only in the months of December, January and February). The agreement is collateralized by all assets of the Company and requires, among other things, the Company to maintain certain financial performance levels relative to net worth and interest coverage ratio. Interest on outstanding balances accrues at prime less one half percent and is due quarterly. The prime interest rate at November 4, 2005 was 7.0%. As of September 30, 2005 and November 4, 2005, the Company did not have an outstanding loan against the credit facility.

Working capital increased at September 30, 2005 to \$31.6 million compared to \$26.2 million at December 31, 2004. Approximately 33% of the Company's current assets are comprised of accounts receivable at September 30, 2005. 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 \$5.0 million of borrowings available under the revolving credit facility, which has a term of three years ending in April, 2008.

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.

### *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 net income during the years ended December 31, 2003 and 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.

#### *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. If the Company needs to raise additional funds through the issuance of equity securities, the percentage ownership of the stockholders of the Company would be reduced, stockholders could experience additional dilution, and/or such equity securities could 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 \$5.0 million of borrowings available under the Company's revolving credit facility.

#### *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 RPM product line of fairway woods and drivers were introduced, older product lines such as the original Tight Lies, Redline fairway woods and drivers and Tight Lies GT 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 lead his team 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 and/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, Larry Nelson, D.A. Weibring 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 and/or financial condition. From time to time, the Company negotiates with and signs 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 of the respective agreements, 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, 2004, 2003 and 2002, the Company spent approximately \$5.1 million, \$3.5 million and \$2.6 million, respectively, on golf related events and publications. The Company has significantly reduced its expenditures in this category from historical periods prior to 2002. Additionally, there can be no assurances that a fluctuation in the levels of advertising will not result in material fluctuations in the 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 the 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 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 this reserve will be sufficient if the Company were to experience an unusually high incidence of problems with its products.

While the Company invests in insurance policies to protect against the possibility of increased costs associated with product failures, future liabilities could result for the Company if the current insurance policies do not fully cover all associated costs of any future claim.

#### *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 and/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 \$11,558,000 and \$8,058,000 at December 31, 2004 and December 31, 2003, 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 China, Taiwan 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, Europe and Asia, 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 that 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**

##### *Introduction*

"Disclosure Controls and Procedures" are defined in Exchange Act Rules 13a -15(e) and 15d -15 (e) as the controls and procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified by the SEC's rules and forms. Disclosure Controls and Procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act are accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding disclosure.

"Internal Control Over Financial Reporting" is defined in Exchange Act Rules 13a -15(f) and 15d -15(f) as a process designed by, or under the supervision of, an issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by an issuer's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements

for external purposes in accordance with generally accepted accounting principles. It includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of an issuer; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the issuer's assets that could have a material adverse effect on the financial statements.

The Company has endeavored to design its Disclosure Controls and Procedures and Internal Controls Over Financial Reporting to provide reasonable assurances that their objectives will be met. All control systems are subject to inherent limitations, such as resource constraints, the possibility of human error, lack of knowledge or awareness, and the possibility of intentional circumvention of these controls. Furthermore, the design of any control system is based, in part, upon assumptions about the likelihood of future events, which assumptions may ultimately prove to be incorrect. As a result, no assurances can be made that the Company's control system will detect every error or instance of fraudulent conduct, including an error or instance of fraudulent conduct, which could have a material adverse impact on the Company's operations or results.

#### *Evaluation of Disclosure Controls and Procedures*

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its Disclosure Controls and Procedures as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's Disclosure Controls and Procedures as of the end of the period covered by this report were designed to ensure that material information relating to the Company is made known to the Chief Executive Officer and Chief Financial Officer by others within the Company, particularly during the period in which this report was being prepared, and that the Company's Disclosure Controls and Procedures were effective. There were no changes to the Company's Internal Controls Over Financial Reporting during the three months ended September 30, 2005 that has materially affected or is reasonably likely to materially affect the Company's Internal Controls Over Financial Reporting.

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, interest 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 dismissal of the claims relating to the impact of gray market sales and remanding those claims for further proceedings. This case is now in the discovery phase in the district court. As of November 1, 2005, the Company is in the process of mediation and at this time no resolution has been made.

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.

In November of 2004, an employee of a third party subcontracting company suffered a fatal injury while working in the Company's warehouse in Plano, Texas. On January 3, 2005, a suit was filed by decedent's family naming both the Company and the decedent's employer. The Company carried general liability insurance and tendered the suit under its policy. The Company's general liability insurance carrier accepted the tender and covered the suit. The Company and decedent's family settled the case on October 13, 2005.

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 above actions.

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.

**Item 6(a). Exhibits**

See exhibit index on pages 33-34.

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 8, 2005

By: /S/ OLIVER G. BREWER  
III  
Oliver G. Brewer, III  
Chief Executive Officer and President

Date: November 8, 2005

By: /S/ ERIC  
LOGAN  
Eric Logan  
Chief Financial Officer  
(Principal Financial Officer)

Date: November 8, 2005

By: /S/ PAMELA J.  
HIGH  
Pamela J. High  
Controller

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(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, 1998	Incorporated by reference to Form 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)

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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 Form 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 Form 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

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the year ended December 31, 2003  
(Exhibit 10.14)

Exhibit 10.14*	Employment Agreement - Oliver G. (Chip) Brewer	Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2004 (Exhibit 10.16)
Exhibit 10.15*	Golf Consultant Agreement - Thomas S. Watson	Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2004 (Exhibit 10.17)
Exhibit 10.16	Revolving line of Credit between Adams Golf, Inc and Bank of Texas	Incorporated by reference to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (Exhibit 10.16)
Exhibit 31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Included in this filing
Exhibit 31.2	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

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