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WOMENS GOLF UNLIMITED INC  
Form 10-K405  
March 29, 2002

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the fiscal year ended  
December 31, 2001

Commission File  
Number 0-14146

WOMEN'S GOLF UNLIMITED, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

NEW JERSEY  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

22-2388568  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

18 GLORIA LANE  
FAIRFIELD, N.J. 07004  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(ZIP CODE)

(973) 227-7783  
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO 12(b) OF THE ACT: NONE  
SECURITIES REGISTERED PURSUANT TO 12(g) OF THE ACT: NONE  
COMMON STOCK, PAR VALUE \$.01  
(TITLE OF CLASS)

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

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

As of March 18, 2002, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$4,805,508. This calculation is based upon the closing price of the registrant's common stock on March 18, 2002

The number of shares of the registrant's Common Stock outstanding as of March 18, 2002 was 3,225,173.

PART I

ITEM 1. BUSINESS  
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## Edgar Filing: WOMENS GOLF UNLIMITED INC - Form 10-K405

### (A) GENERAL DEVELOPMENT OF BUSINESS

Women's Golf Unlimited, Inc. (the "Company" or "Women's Golf") was incorporated under the laws of the state of New Jersey in February 1982. The Company manufactures and markets throughout the United States proprietary lines of golf equipment for women and men, including golf clubs, golf bags, golf shoes, golf balls and accessories. The Company markets these products under the trade name and trademark Square Two(R) and the trademarks NancyLopezGolf(TM), Lady Fairway(TM), and several others, including S2(R) and Posiflow(R).

The common stock of the Company (the "Common Stock") trades on the SmallCap Market of the National Association of Securities Dealers Automated Quotation System ("Nasdaq") under the trading symbol "GOLF."

Throughout 2001, the Company maintained and strengthened its position as a manufacturer and seller of high-quality, high-performance clubs, especially for women golfers. Golf equipment for women comprised approximately 82% of the Company's business in 2001, as compared against 65% in 1997. Two acquisitions in 2000 expanded significantly both the Company's range of golf products for women and its distribution network. In July, 2000, the Company acquired the NancyLopezGolf(TM) lines of premium golf clubs and accessories, and on December 31, 2000, the Company acquired the Lady Fairway(TM) brand of golf shoes and other accessories.

During 2001, the Company continued to improve its Square Two(R) brands of equipment, introducing the XLD line of premium titanium drivers, redesigning its Kathy Whitworth and Agree series of clubs and launching a premium line of men's clubs, the Rave II(R). During 2001 the Company improved its NancyLopezGolf(TM) brand of equipment by introducing a premium line of irons, woods and titanium drivers, the Delma(R). The Company also upgraded its NancyLopezGolf(TM) line of putters by introducing the Fame(TM) series of putters. The Company also continued its 20-year partnership with the Ladies Professional Golf Association ("LPGA(R)"), completed its first year of an endorsement agreement with Nancy Lopez as well as the second year of an endorsement agreement with Kathy Whitworth, and for a third year aired a television advertisement aimed exclusively at women. The Company's sponsorship of the Square Two(R)/LPGA(R) Custom Club Fitting Program, which began in 1993, provided a forum for design input from professional women golfers during six 2-day seminars. Cosmetic changes to the Company's lines of women's clubs continued to include greater prominence for the distinctive LPGA(R) logo, which all of the women's clubs marketed under the Square Two(R) brand carry.

Between 1997 and 2001, the Company's net sales increased from \$12,073,843 to \$16,144,947 and shareholders' equity increased from \$3,507,094 to \$6,965,015.

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The Company's wholly-owned subsidiary, S2 Golf Acquisition Corp. ("S2 Acquisition"), a New Jersey corporation formed in 2000 (through which the Company acquired the Lady Fairway(TM) line of products through the December 2000 merger of Ladies Golf Equipment Company, Inc. ("Ladies Golf") with and into S2 Acquisition), was merged with and into the Company as of May 25, 2001. At present the Company has no subsidiaries.

### (b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

For financial information about business segments in which the Company operates,

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see Item 8, Financial Statements and Supplementary Data.

### (c) NARRATIVE DESCRIPTION OF BUSINESS

#### Golf Club Design

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The Company designs golf clubs for women and men of all ages, and engages in continuous processes of refining existing designs and developing new designs.

The Company employs two broad design approaches. One targets the steel shaft market, and the other targets the graphite shaft market. In recent years, the graphite shaft market has experienced tremendous growth, particularly among women. Graphite shafts are lighter than steel shafts and have greater design flexibility. The Company, recognizing that graphite has become the shaft of choice for the majority of women, has developed an extensive array of graphite shaft models.

#### Products

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The Company manufactures and markets throughout the United States proprietary lines of golf equipment under the trade name and trademark Square Two(R), and a number of other trademarks, including NancyLopezGolf(TM) and Lady Fairway(TM).

Under the Square Two(R) name, the Company manufactures and markets numerous products for women and men golfers of varying ages and abilities. These products include the ZCX-Ti(TM), Lady Ti(TM), Light & Easy(R), Power Circle(TM), Rave(R), Lady Rave(TM), Rave(R) II, Relief(TM), Rough Relief(TM), Agree(R) and Eight-is-Enough(TM) lines of golf clubs. Many of the Square Two(R) brand clubs feature cavity-back heads with dual copper sole inserts, which lower the center of gravity and expand the "sweet spot," making the clubs more forgiving.

The Relief(TM) bi-metal irons and Rave(R) and Lady Rave(TM) high-modulus graphite-shaft irons and woods feature the Company's patented Posiflow(R) weighting system, in which the shafts are matched to the player's swing speed, which reduces long-iron slices and short-iron pulls. In the Light & Easy(R) and Power Circle(TM) lines, putters have tri-metal heads that are heel-toe weighted to reduce torque on off-center hits, and drivers feature

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club heads made of titanium. The ZCX-Ti(TM) and Lady Ti(TM) lines feature Posiflow(R) weighting and titanium inserts for enhanced feel.

Under the NancyLopezGolf(TM) trademark, the Company markets premium golf clubs, including the Albany(R) and the Delma(R) lines and the Streak 78(R), Fame 87(R) and Debut 98(R) classically styled balata-face putters. The Company's NancyLopezGolf(TM) products also include golf balls, the LopezGrip(R) line of golf gloves, golf bags and other golf accessories.

Under the Lady Fairway(TM) line, the Company markets ladies golf shoes, including Westchester, Monte Carlo and Shaughnessy, as well as golf gloves, golf socks and other golf accessories.

Golf clubs accounted for more than 82% of the Company's revenue in 2001 and 95% in 2000 and 1999.

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### Manufacturing

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The Company assembles its golf clubs at its facility located in Fairfield, New Jersey. The Company obtains steel shafts, grips, and accessories from various domestic and foreign shaft manufacturers, graphite shafts from sources in the People's Republic of China, Korea and the US, and finished heads from manufacturers in Taiwan, Thailand and the People's Republic of China, all of which manufacture components to the Company's design specifications.

The Company's Lady Fairway(TM) products (golf shoes, socks, gloves and other accessories) are manufactured by third-party manufacturers in the People's Republic of China, Indonesia and in the US.

### Inventory and Component Supply

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Foreign suppliers of inventory and components to the Company generally require 90- to 120-day lead times to deliver their products. The Company tries to maintain at least two sources of supply for each of the golf club shaft and golf club head products that it purchases from foreign suppliers. Domestic suppliers of shafts and grips are more plentiful and, under normal circumstances, can provide components to the Company on relatively short notice.

While the Company does not anticipate long-term shortages of components or inventory from its domestic or foreign suppliers, no assurance can be given that the Company will not experience shortages in the future. Delays are not anticipated to be longer than two weeks or to affect materially the Company's ability to deliver its products. The Company regularly evaluates alternative suppliers.

The Company purchases inventory and components through a line of credit in the amount of \$8,000,000 with PNC Bank, National Association ("PNC Bank"), pursuant to which PNC Bank may make available an additional credit facility of up to

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\$1,750,000 in the form of standby or documentary letters of credit and demand loans. See also the discussion of "Liquidity and Capital Resources" under Item 7.

As noted below, the seasonal nature of the golf industry leads to seasonal peaks in demand for the Company's products, although manufacturing occurs throughout the year.

### Market

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The National Golf Foundation estimates that in 2001 there were 26.4 million golfers in the United States. Although the rate of growth in numbers of golfers has remained relatively flat since 1997, the general popularity of the sport of golf has created a significant market for golf clubs and other golf accessories. In competition for a share of the market, various manufacturers have developed golf clubs using various materials, differing types of construction and the latest engineering technology.

### Marketing & Distribution

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Until approximately 20 years ago, top-of-the-line golf equipment was sold almost exclusively by golf professionals at private clubs. Currently, off-course specialty golf shops, sporting goods retailers, discounters, mail-order houses, the Internet and infomercials account for a substantial share of sales to the golf club market.

The Company markets its products primarily through retail shops and also through private clubs. NancyLopezGolf(TM) brand clubs sell at premium price points, whereas the Square Two(R) brand products retail at mid-level price points. As of March 1, 2002, the Company had established a network of approximately 2,250 retailers with approximately 2,800 retail outlets. Each line has a comprehensive catalog for its dealers.

The golf equipment industry is one in which advertising and promotion are required to create market awareness of a company's products. Management anticipates that it will continue to need to increase its research and development efforts as well as its advertising expenditures.

In 2001, no customer accounted for more than 5% of the Company's total sales. The Company does not believe that the loss of any single customer would materially affect its business.

### Competition

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In general, the Company competes with manufacturers of sporting goods equipment for all phases of the recreation industry, and its business is subject to factors generally affecting the recreation and leisure market, such as economic conditions, changes in discretionary spending patterns and weather conditions.

The golf club industry is highly competitive and is dominated principally by approximately 10 nationally known manufacturers of sporting goods equipment. Such

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manufacturers, including Callaway(R), Ping(R), Nike(R), Taylor Made(R), and Cobra/Titleist(R), possess greater financial and other resources than those of the Company. The Company competes with these entities primarily on the basis of the pricing and quality of the Company's products and services, along with the Company's position as an official sponsor of the LPGA(R).

Golf clubs are also manufactured by lesser-known, lower-volume companies who assemble clubs from components manufactured by others. While these manufacturers of clubs are generally smaller than the Company, they also compete with the Company.

### Seasonality

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The golf industry is seasonal. While manufacturing occurs throughout the year, demand for the Company's clubs and other golf products is greatest from March through July.

### The Ladies Professional Golf Association Agreement

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The Company has entered into an agreement with the Ladies Professional Golf Association, which grants the Company the exclusive right to use the LPGA(R)

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name and logo on its women's golf clubs and the nonexclusive right to use the LPGA(R) name and logo on certain of its other products, including golf bags. The Company has renewed and restated this licensing agreement effective January 1, 1999 through December 31, 2003, at which time the Company has the option to renew the agreement for two consecutive years under the same terms and conditions. The agreement entitles the Company to use the license granted on a worldwide basis. The Company is obligated to pay to the LPGA(R) a license fee and a royalty fee based on sales volume.

The minimum annual license fee for the term of the agreement is \$200,000 each year through 2003. In the event that the sum of (i) 5% of the net sales of the licensed products (other than golf shoes) up to \$1,000,000 in any calendar year, (ii) 2.5% of the net sales of the licensed products (other than golf shoes) in excess of \$1,000,000 and less than \$5,000,000 in any calendar year, (iii) 1% of the net sales of the licensed products (other than golf shoes) in excess of \$5,000,000, and (iv) 1% of the net sales of golf shoes in any calendar year, exceeds the minimum license fee, the excess shall be paid as a royalty fee.

Under the agreement, the Company is obligated to be a "Title Sponsor" of the LPGA(R) Teaching and Club Professionals Division Team Classic at an annual cost that began at \$35,000 in 1999 and increases by \$2,500 per year through 2003. In addition, the Company is obligated to spend a minimum of \$100,000 per year on various advertising programs.

Kathy Whitworth Endorsement Agreement  
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The Company has entered into an Endorsement Agreement with former LPGA(R) Tour Golf Professional Kathy Whitworth, effective January 1, 2000 through December 31,

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2005, pursuant to which Ms. Whitworth has granted the Company an exclusive license to use her name, likeness, image and personal identification, singly or in any combination, in connection with the production, marketing and sale of a "Kathy Whitworth" signature line of women's golf clubs. In addition, the Company has the right to include Ms. Whitworth in two print advertisements and one television advertisement per year. Ms. Whitworth also has agreed to use only the golf clubs and golf bags of the Company in any golf event, either professional or social, during the term of the agreement. She serves as a golf instructor at up to ten golf clinics per calendar year, and represents the Company, at the Company's discretion, at up to two Professional Golf Association merchandise shows each calendar year. The Company pays Ms. Whitworth a base fee of \$36,000 per year in equal quarterly payments and a royalty fee of 2% of net sales of the "Kathy Whitworth" line of clubs.

Nancy Lopez License  
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Under an agreement with Nancy Lopez Enterprises, Inc. ("Lopez Enterprises"), the Company has the exclusive right to use the name, signature, image and endorsement of Nancy Lopez on certain of its golf clubs and other golf equipment. This agreement is for an initial term that ends on December 31, 2007, and shall be extended automatically until December 31, 2010 unless one of the parties decides against such extension. The Company pays Lopez Enterprises an annual fixed royalty of \$200,000, plus additional royalties if the sum of (i) 25% of any fees paid to the Company for sublicenses and (ii) 3% of revenues of up to \$10 million for licensed products plus 3.5% of such revenues greater than

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\$10 million exceeds the fixed royalty amount of \$200,000. The Company also pays Lopez Enterprises bonuses if Ms. Lopez wins or places at least fifth in specified golf tournaments or wins other named awards, and issues Lopez Enterprises options to purchase Common Stock on the basis of the revenue for licensed products in excess of a certain threshold.

### Patents and Trademarks

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The Company holds two United States patents, both of which will expire in 2013. One protects the concept of Posiflow(R) weighting in iron heads. The second protects an internal triangular reinforcement cell for metal woods.

The Company owns the rights to the following trademarks registered with the United States Patent and Trademark Office:

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AGREE (R)	FAME 87 (R)	ONYX (R)	S2 (R) (STYLIZED)
ALBANY (R)	LADIES LONG	OUTLAST (R)	SARASOTA (R)
ALLEGRA (R)	DRIVER (R)	OPAL (R)	SQUARE TWO (R)
DARDEN (R)	LADY PETITE (R)	PCX (R)	STREAK 78 (R)
DEBUT 98 (R)	LIGHT & EASY (R)	POSIFLOW (R)	THORPE (R)
DELMA (R)	LOPEZGRIP (R)	RAVE (R)	TOTALLY
DEFINING THE	MELODY (R)	ROSCOE (R)	MATCHED (R)
WOMEN'S GAME (R)	NLG (R)	ROSWELL (R)	
DOMINGO (R)	NLG MATCHPLAY	S2 (R) (BOUNCING	
DYNA-BALANCE (R)	PROCESS (R)	BALL DESIGN)	

"Square Two(R)" is registered in 23 countries. "Lady Fairway" is registered in the United Kingdom and in Sweden.

Given the competitive climate within the golf industry worldwide and the recent counterfeiting of clubhead designs, the Company believes that it is imperative to protect the Company's trade names, trademarks and patentable inventions and designs.

### Employees

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As of December 31, 2001, the Company employed 59 persons, including 58 full-time employees, 2 of whom were executive officers. Forty-six of these were hourly employees and 13 were management, administrative and marketing personnel. Additional hourly employees are hired during peak production periods, and management anticipates no problems in finding adequate employees. The employees of the Company are not represented by any labor organization.

The Company believes that its present staff is adequate. However, if sales of the Company's golf clubs or golf shoes should increase additional production, clerical, sales and management personnel may be necessary to meet product demand.

### Special Note on Forward-Looking Statements

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The business, financial condition and results of operations of the Company may be adversely affected by a number of factors. Certain statements and information contained herein reflect the Company's current expectations with respect to the

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future performance of the Company and may constitute "forward-looking statements" within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other risks and uncertainties: the risks inherent in the development and introduction of new products; dependence on consumer tastes, which fluctuate from time to time; seasonality and prevailing weather conditions, as protracted periods of inclement weather could disrupt consumer demand for golf-related products; economic conditions as they impact the availability of

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discretionary income; unanticipated shortages of components or delays in component delivery; and the significant competition in the Company's line of business.

(D) FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

It is impracticable for the Company to provide financial information about geographic areas. Historically, the Company's sales to foreign customers have not been material. For the fiscal year ended December 31, 2001, the Company's sales to foreign customers comprised less than 2.5% of net sales.

ITEM 2. PROPERTIES

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The Company currently leases its manufacturing facility and sales and executive offices located at 18 Gloria Lane, Fairfield, New Jersey 07004, comprising a total of 28,442 square feet of space. As of December 1, 2001 the Company entered into a new lease agreement for the Fairfield location for a period of three years, expiring on November 30, 2004. In December 2001, the Company consolidated the Florida customer service, sales, warehousing and distribution operations for its Lady Fairway(TM) lines with those operations conducted at its New Jersey location. The Company now maintains a small office of approximately 800 square feet in Lutz, Florida for administrative activities relating to the Lady Fairway(TM) lines.

ITEM 3. LEGAL PROCEEDINGS

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None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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No matters were submitted to a vote of the Company's security holders in the fourth quarter period of 2001.

EXECUTIVE OFFICERS OF THE COMPANY

See Part III, Item 10 of this report.

PART II



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### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock of the Company is traded on the Nasdaq SmallCap Market under the trading symbol "GOLF." The following table sets forth the high and low bid prices for the Common Stock as provided by Nasdaq for the periods indicated. These prices represent quotations between dealers, do not include retail markups, markdowns or commissions and do not necessarily represent prices at which actual transactions were effected.

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PERIODS:	COMMON STOCK BID PRICES:	
	HIGH	LOW
2000 1st Quarter	\$2.50	\$1.75
2000 2nd Quarter	\$2.88	\$1.75
2000 3rd Quarter	\$2.75	\$1.82
2000 4th Quarter	\$1.68	\$0.75
2001 1st Quarter	\$1.06	\$0.88
2001 2nd Quarter	\$1.75	\$1.29
2001 3rd Quarter	\$2.62	\$1.00
2001 4th Quarter	\$2.00	\$1.00

On March 18, 2002, the number of holders of record of the Company's Common Stock was approximately 198. No cash dividends have been paid to date and it is anticipated that cash dividends will not be paid in the near future.

In 2001, the Company issued 1,067 shares of Common Stock to Frederick B. Ziesenheim and 1,067 shares of common stock to Mary Ann Jorgenson as compensation for their service as directors of the Company and participation in board meetings. As no public offering was involved, the issuance of such shares was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended. See Item 11.

### ITEM 6. SELECTED FINANCIAL DATA

	YEAR ENDED DECEMBER 31,			
	2001	2000	1999	1998
<b>OPERATING RESULTS:</b>				
Net Sales	\$16,144,947	\$12,510,314	\$11,003,556	\$11,500,000
Net Income	164,291	220,654	306,126	400,000
Net Income				
per Share-Basic	0.05	0.10	0.14	0.14
per Share-Diluted	0.05	0.10	0.14	0.14
Weighted Average				

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Number of Shares				
Outstanding-Basic	3,223,850	2,226,312	2,219,700	2,219,700
Outstanding-Diluted	3,266,819	2,264,065	2,263,876	2,263,876
Cash Dividend	0	0	0	
At Year End:				
Working Capital	1,988,256	1,672,945	4,020,772	3,711,113
Total Assets	12,994,368	13,678,640	5,752,079	7,511,113
Total Liabilities	6,031,355	6,882,918	1,492,011	3,511,113
Long-Term Obligations	202,413	512,105	84,822	1,113,113
Shareholders' Equity	6,963,013	6,795,722	4,260,068	3,911,113
Market Price of				
Common Stock				
High-Low	2.62/.88	2.88/.75	4.00/1.62	11.3

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ITEM 7.           MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
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 RESULTS OF OPERATIONS  
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Women's Golf Unlimited, Inc. operates in one business segment, the manufacture and marketing of golf equipment, including golf clubs, golf balls, golf gloves, golf bags, and, starting on December 29, 2000, golf shoes and socks. The Company markets its products primarily in the United States.

The Company grew substantially with its acquisitions of the Lady Fairway(TM) product line on December 31, 2000 and of the NancyLopezGolf(TM) product line in July of 2000. Taken together, these acquisitions had a material impact on the Company's results of operations, liquidity and capital resources in 2001.

Results of Operations  
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The results of the Lady Fairway(TM) acquisition were first included with the Company's results in January, 2001. As the results of the NancyLopezGolf(TM) acquisition were first included with the Company's results in August, 2000, 2001 provides the first full year of revenue recognition for the NancyLopezGolf(TM) brand products. In 2001 the Company began to realize synergies from the acquisitions, through expanded and consolidated distribution networks. Management anticipates the realization of additional synergies in 2002 and beyond, as certain non-recurring costs associated with the acquisitions were paid in 2001 and the physical consolidation of sales, customer service, marketing and distribution operations occurred in December of 2001.

Sales  
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2001 Compared to 2000  
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In 2001, net sales were \$16,144,947, versus \$12,510,314 in 2000. This is an increase of 29%, resulting from an increase of \$4,834,633 in sales attributable to the Lady Fairway(TM) and NancyLopezGolf(TM) brand acquisitions, offset by a decrease of \$1,200,000 in sales of Square Two(R) brand products due to bad weather in the spring 2001 selling season and the U.S. economic recession, both of which contributed to a poor industry environment in 2001. The Company does not have its own historical sales data to evaluate the impact of these factors on 2001 sales of the Lady Fairway(TM) and NancyLopezGolf(TM) brand products.

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2000 Compared to 1999  
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In 2000, net sales were \$12,510,314, versus \$11,003,556 in 1999, an increase of 13.7%. Forty-six percent of this increase was the result of an increase in the volume of sales of the Square Two(R) brand of equipment, and 54% of this increase was the result of additional sales generated by the addition of the NancyLopezGolf(TM) product line in the last 5 months of 2000. The increase in Square Two(R) brand sales arose from a higher volume of sales of the Light & Easy(R) model of golf clubs and the successful introduction of the Kathy Whitworth monogram series of clubs.

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Gross Profit  
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2001 Compared to 2000  
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In 2001, gross profit on sales (net sales less the cost of goods sold) was \$6,775,415 or 42% of sales, an increase over the 2000 gross profit of \$4,258,480 or 34% of sales. This increase in gross profit percentage was due primarily to the mix of products sold in 2001, with higher sales of products with a higher average gross profit margin. Another factor was lower material costs on golf club components.

2000 Compared to 1999  
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In 2000, gross profit on sales (net sales less the cost of goods sold) was \$4,258,480, or 34.0% of sales, an increase over the 1999 gross profit of \$3,575,426, or 32.5% of sales. The increase in gross profit percentage was the result of lower material costs and the mix of products sold.

Selling Expenses  
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2001 Compared to 2000  
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Selling expenses increased to \$3,495,523 in 2001, versus \$2,093,938 in 2000. The primary reasons for the increase were the expenses associated with sales of the Lady Fairway(TM) brand products, payment of the royalty on NancyLopezGolf(TM) brand products for a full 12-months, heavy television advertising costs associated with promoting the NancyLopezGolf(TM) brand and higher sales commissions due to the increased volume of sales.

2000 Compared to 1999  
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Selling expenses increased to \$2,093,938 in 2000, versus \$1,641,744 in 1999. This increase was primarily the result of increased salaries and wages, new costs for player endorsements (by Kathy Whitworth and Nancy Lopez), which were not incurred in 1999, increased advertising expenses and increased commissions due to higher revenue.

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### General Administrative -----

#### 2001 Compared to 2000 -----

General and Administrative expenses were \$2,759,711 in 2001, versus \$1,647,827 in 2000. The primary reason for the increase were the non-recurring general and administrative expenses associated with the Lady Fairway(TM) acquisition not incurred in 2000, including increased legal fees, and the recording of 12-months goodwill associated with the NancyLopezGolf(TM) brand (versus 5 months of goodwill expense associated with that brand in 2000).

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#### 2000 Compared to 1999 -----

General and Administrative expenses were \$1,647,827 in 2000, versus \$1,302,325 in 1999. This increase of 19.5% was the result of higher consulting expenses, legal fees, amortization of goodwill arising from the acquisition of the NancyLopezGolf(TM) product line, and bad debt expenses.

### Interest -----

#### 2001 Compared to 2000 -----

Interest expense for 2001 was \$413,111, an increase of 77.0% over the 2000 interest expense of \$233,385. This increase in interest expense resulted from the higher average outstanding balance of the credit facility in 2001 plus the increase of long-term debt in 2001, offset by favorable interest rates. See also the discussion of "Liquidity and Capital Resources" below.

#### 2000 Compared to 1999 -----

Interest expense for 2000 was \$233,385, an increase of 46.9% over the 1999 interest expense of \$158,892. This increase in interest expense resulted from the higher average outstanding balance of the credit facility in 2000, when the average balance was \$1,788,795, than in 1999, when the average balance was \$1,622,654. The increase in the average outstanding balance on the credit facility resulted from a 4.9% increase in the average inventory balance, up to \$3,146,173 in 2000 as compared to \$2,990,925 in 1999. Average balances for accounts receivable in 2000 of \$3,627,447 were 13.6% greater than the 1999 average balances of \$3,134,017.

### Other Income -----

#### 2001 Compared to 2000 -----

Other Income/(Expense) for 2001 was \$269,313, compared to (\$5,307) in 2000. The increase is mainly due to royalty income from international distributors associated with the Square Two(R) and NancyLopezGolf(TM) products.

### Income Taxes

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2001 Compared to 2000  
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During 2001, the Company recorded a provision for income taxes of \$212,092, compared to \$57,369 in 2000. The provision for income tax as a percentage of income before taxes was 56% in 2001 as compared with 21% in 2000. The effective tax rate was higher in 2001 as compared to 2000 primarily as a result of the elimination in 2000 of certain tax reserves (related to over-accruals of corporate tax liabilities) and the amortization in 2001 of goodwill associated with the acquisition of the Lady Fairway(TM) product line, which is not deductible for tax purposes.

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2000 Compared to 1999  
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In 2000, the Company had an income tax provision of \$57,369, compared to \$166,901 in 1999. The effective tax rate in 2000 decreased as a result of the elimination of certain reserves as discussed in the preceding paragraph. (See the Notes to Financial Statements.)

### Liquidity and Capital Resources

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The Company's working capital at year end was \$1,988,256 in 2001, compared to \$1,672,945 for 2000, an increase of 18.9%. This increase was the result of a decrease in current assets of \$226,560 offset by a decrease

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in current liabilities of \$541,871. The decrease in current assets was due mainly to decreases of \$475,203 in accounts receivable, \$68,183 in prepaid expenses and \$41,000 in deferred income tax, offset by increased inventory of \$359,995. The 2001 decrease in current liabilities is due to decreases of \$139,946 in the current portion of long-term debt, \$563,425 in accounts payable, \$94,025 in accrued expenses and \$64,112 in other current liabilities, offset by an increase of \$319,637 in short-term borrowings.

Average balances for accounts receivable in 2001 of \$3,895,128 were 7.4% greater than the 2000 average balances of \$3,627,447, also as a result of increased sales after the acquisitions.

Cash provided by operations in 2001 was \$179,046, compared to \$1,483,778 in 2000 and \$2,082,656 in 1999. The decrease in net cash provided by operations is due primarily to the Company's increased inventory of approximately \$389,000, which was the result of the acquisition of the Lady Fairway(TM) line of products, and the reduction of accounts payable, accrued expenses and other liabilities of approximately \$724,000.

The Company's credit facility with PNC Bank (the "PNC Credit Facility") allows a revolving line of credit up to a maximum of \$8,000,000 less 50% of the aggregate face amount of all outstanding letters of credit, and subject to various borrowing bases, as well as up to \$1,750,000 in the form of standby or documentary letters of credit and demand loans.

The availability of funds under the revolving line of credit varies because it is based, in part, on a borrowing base of 80% of eligible accounts receivable and 60% of qualified inventory. Substantially all of the Company's assets are

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used as collateral for the credit line. Interest rates are at prime plus one-quarter percent, paid monthly; the interest rate as of December 31, 2001 was 5.00%. At December 31, 2001, funds available to the Company under the line of credit were approximately \$679,000.

The average outstanding balance on the line of credit was \$4,233,045 in 2001, up from \$1,788,795 in 2000. This increase resulted from a 51.2% increase in the average inventory balance (of \$4,757,047 in 2001 as compared to \$3,146,173 in 2000), primarily as a result of the NancyLopezGolf(TM) and Lady Fairway(TM) brand line acquisitions.

As of December 31, 2001, the Company had no outstanding letters of credit or demand loans under the PNC Credit Facility.

The PNC Credit Facility contains certain covenants, which among other items require the maintenance of certain financial ratios including tangible net worth and working capital. Any event of default under the credit facility permits the lender to cease making additional loans thereunder. The Company was in compliance with all covenants and conditions of the facility as of December 31, 2001.

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Other debt obligations of the Company, associated with the acquisitions, are a term loan from PNC Bank in the original principal amount of \$900,000, of which \$500,000 remained outstanding on December 31, 2001 and the final payment on which is due in mid-2003, and a promissory note payable to James E. Jones in the original principal amount of \$1,000,000, the entire amount of which remained outstanding on December 31, 2001 and will become due in installments in 2002.

### Accounting Policies

-----

The Company's accounting policies and practices are described in Note 1 to the financial statements included herein, "Summary of Significant Accounting Policies." Application of the Company's accounting policies requires judgments by management and incorporates expectations about future events. The Company has established reserves and accruals for possible losses on collection of accounts receivable as well as on obsolete inventory. Management uses all available facts and circumstances in establishing such accruals or reserves.

#### Calculation of Allowances for Doubtful Accounts

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Management reviews on a revolving basis a schedule listing each customer account containing balances that are 90 or more days past due, and determines whether collection of each outstanding balance is anticipated. If collection is anticipated, no reserve for such account is established. If collection is questionable, management applies a reserve of between 20% and 100% of the total amount due. In determining whether to apply a reserve and if so, the amount of such reserve, management draws on its knowledge of the progress of internal collection efforts, the customer's payment history, and other information about the customer. Management also applies a reserve of 2% of accounts receivable that are up to 90 days past due.

#### Calculation of Reserves for Obsolescence

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Periodically management reviews all inventory for the purpose of evaluating

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current reserves for obsolescence, which is determined on the basis of historical and current sales of each product, inventory level, and other factors. A reserve of between 10% and 90% of present book value is assigned for all questionable inventory, to which is added an additional miscellaneous amount.

Certain information in the preceding "Management's Discussion and Analysis of Financial Condition and Results of Operations" constitutes forward-looking information that involves certain risks and uncertainties. See Item 1, Business, under the caption "Special Note on Forward-Looking Statements."

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risks is limited to interest rate risks associated with the variable interest rates on its revolving line of credit, term loan and promissory note. Changes in the interest rates affect the Company's earnings and cash flows, but not

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the fair value of the Company's debt instruments. If the indebtedness outstanding at December 31, 2001 were to remain constant, a 1.0% increase in interest rates occurring on January 1, 2002 would result in an increase in interest expense for the following 12 months of approximately \$46,956.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Index to Financial Statements and Financial Statement Schedule on page F-1 for the location in this report of the financial statements and supplementary data.

ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Company's current directors and executive officers are:

NAME	AGE	POSITION WITH THE COMP
Robert L. Ross	57	Chairman of the Board and Chief Execu
Douglas A. Buffington	46	Director, President, Chief Financial Operating Officer and Treasurer

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Randy A. Hamill	46	Senior Vice President of Manufacturing and Assistant Secretary
Richard M. Maurer	53	Director and Secretary
James E. Jones	39	Director and Vice President of Marketing
Mary Ann Jorgenson	61	Director
Nancy Lopez	44	Director
Frederick B. Ziesenheim	75	Director

ROBERT L. ROSS has been a director of the Company since 1988 and Chairman of the Board since October 1995. Effective in January 1996, Mr. Ross became Chief Executive Officer of the Company. He has been Co-Managing Partner of Wesmar

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Partners Limited Partnership ("Wesmar Partners"), the majority shareholder of the Company, since 1985. Prior to the formation of Wesmar Partners, Mr. Ross was associated with The Hillman Company, a private investment firm, from 1978 to 1985. Mr. Ross is a Certified Public Accountant and was associated with Haskins & Sells and with Westinghouse Electric Corporation prior to joining The Hillman Company.

DOUGLAS A. BUFFINGTON joined the Company in January 1994 as Vice President of Sales and Marketing, and became Chief Financial Officer and Chief Operating Officer in June 1994, President in December 1994, a director in February 1995 and Treasurer in January 1996. From 1992 until joining the Company, Mr. Buffington served as General Manager of Simon-Duplex, a \$25 million capital goods division of Simon Engineering, a company based in the United Kingdom. From 1990 to 1992, he served as Vice President of Finance of Simon-Ltd., a \$35 million division of Simon Engineering.

RANDY A. HAMILL has been Senior Vice President of the Company since July 1991 and is in charge of all manufacturing and purchasing. Effective in January 1996, Mr. Hamill became Assistant Secretary of the Company. He was Vice President of Manufacturing of the Company from 1981 to July 1991.

RICHARD M. MAURER has been a director of the Company since 1988. Effective in January 1996, Mr. Maurer became Secretary of the Company. He has been Co-Managing Partner of Wesmar Partners, the majority shareholder of the Company, since 1985. Prior to the formation of Wesmar Partners, Mr. Maurer was associated with The Hillman Company, a private investment firm, from 1978 to 1985. Mr. Maurer is a Certified Public Accountant and was associated with Price Waterhouse prior to joining The Hillman Company.

JAMES E. JONES became the Vice President of Marketing and a director of the Company on January 1, 2001. Mr. Jones, the founder of Ladies Golf, was President of that company from 1993 through 2000, and served as President of S2 Acquisition between the merger of Ladies Golf into S2 Acquisition at the end of December, 2000 and the merger of S2 Acquisition into the Company in May of 2001. He was Chief Operating Officer of International Sporting Goods, a producer of a wide range of sporting goods products from 1991 until 1993, and a sales representative for the Converse Shoe Company from 1986 until 1991.

MARY ANN JORGENSON has been a director of the Company since 1992. She has been a



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partner with the law firm of Squire, Sanders & Dempsey L.L.P. since 1984 and has been associated since 1975 with that firm. She also serves as a director of Cedar Fair Management Company, the general partner of Cedar Fair, L.P., an owner and operator of amusement parks, and is a director of Anthony & Sylvan Pools Corporation, an installer of concrete in-ground swimming pools.

NANCY LOPEZ became a director of the Company on January 1, 2001. She has been a member of the Tour Division of the Ladies Professional Golf Association since 1977, and was inducted into the LPGA(R) Hall of Fame in 1987. She has 48 career victories

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including three major titles. Nancy Lopez was Rookie of the Year in 1978, a four-time LPGA(R) player of the year and a three-time Vare trophy winner for the lowest scoring average.

FREDERICK B. ZIESENHEIM has been a director of the Company since 1992. He has been with the law firm of Webb Ziesenheim Logsdon Orkin & Hanson, P.C. since 1988 and is currently Vice Chairman of its Board of Directors. Prior to combining his practice with that firm, he was President of the law firm of Buell, Ziesenheim, Beck and Alstadt, P.C., with whom he had been associated since 1958.

All directors hold office until the next annual meeting of the Company's shareholders and until their successors have been elected and qualified. Officers serve at the discretion of the Board of Directors.

### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company's directors, executive officers and any person holding ten percent or more of the Company's Common Stock are required to report their initial ownership of the Company's Common Stock and any changes in that ownership to the Securities and Exchange Commission (the "SEC"). Based solely on a review of copies of the forms furnished to the Company in 2001 and written representations from the Company's directors and executive officers, the Company believes that its directors, executive officers and 10% shareholders complied with all Section 16(a) filing requirements applicable to them in 2001.

### ITEM 11. EXECUTIVE COMPENSATION

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The following table sets forth certain information with respect to annual and long-term compensation for services in all capacities paid by the Company for the years ended December 31, 2001, 2000 and 1999 to or on behalf of Robert L. Ross, Douglas A. Buffington, Randy A. Hamill and James E. Jones (collectively, the "Named Executives").

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### SUMMARY COMPENSATION TABLE

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NAME AND PRINCIPAL POSITION -----	YEAR ----	ANNUAL COMPENSATION -----			OTHER UNDERLYING COMPENSATION -----	SECUR ALL O OPT ---
		SALARY -----	ANNUAL BONUS -----			
Robert L. Ross, Chief Executive Officer	2001	\$ 0	\$ 0	\$ 0		
	2000	\$ 0	\$ 0	\$ 0	10,	
	1999	\$ 0	\$ 0	\$ 0	7,	
Douglas A. Buffington, President, Chief Financial Officer, Chief Operating Officer, and Treasurer	2001	\$173,073	\$ 45,000 (1)	\$ 19,829 (5)	20,	
	2000	\$150,000	\$ 35,000 (2)	\$ 19,392 (5)	20,	
	1999	\$149,808	\$ 24,375 (4)	\$ 19,389 (5)	14,	
Randy A. Hamill, Senior Vice President of Manufacturing and Resources and Assistant Secretary	2001	\$116,539	\$ 31,250 (1)	\$ 0		
	2000	\$100,000	\$ 20,000 (3)	\$ 0	5,	
	1999	\$100,000	\$ 6,250 (4)	\$ 0	6,	
James E. Jones, Vice President of Marketing	2001 (10)	\$100,000	\$100,000	\$ 0		

- (1) Bonus earned in 2001, paid in 2002.
- (2) Bonus earned in 2000, paid in 2001.
- (3) Bonus earned in 2000, paid in 2000.
- (4) Bonus earned in 1999, paid in 2000.
- (5) Travel/commuting expenses reimbursed by the Company.
- (6) Awarded for 2001 services, granted in 2002.
- (7) Awarded for 2000 services, granted in 2000.
- (8) Awarded for 1999 services, granted in 2000.
- (9) The Company paid the \$975 annual premium on a \$750,000 insurance policy on the life of Mr. Buffington, which names Mr. Buffington's wife as the sole beneficiary.
- (10) Mr. Jones became an employee on January 1, 2001.

During the year 2001 no stock options were granted to the Named Executives. The following table sets forth certain information pertaining to stock options held by the Named Executives as of December 31, 2001. The Named Executives exercised no options in 2001.

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2001 FISCAL YEAR-END OPTION HOLDINGS

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS AT FISCAL YEAR-END		VALUE
	EXERCISABLE	UNEXERCISABLE	IN-THE AT FIS
Robert L. Ross	67,500	0	\$ 0
Douglas A. Buffington	85,375	0	\$ 0
Randy A. Hamill	59,842	0	\$ 0
James E. Jones	0	0	\$ 0

(1) Calculated on the basis of the fair market value of the Common Stock of \$.75 per share on December 31, 2001, less exercise price.

Compensation of Directors

The Company compensates its non-employee, non-consultant directors (Mary Ann Jorgenson and Frederick B. Ziesenheim) by granting such persons shares of the Company's Common Stock having a fair market value of \$1,000 for every meeting of the Board of Directors or committee thereof attended by such person, and shares of Common Stock having a fair market value of \$500 if such person participated in a meeting by telephone. The number of shares issued is based on the closing price of the stock on the exchange where traded on the meeting date or the preceding date on which such shares were traded.

Certain Agreements

The Company entered into a new employment agreement with Douglas A. Buffington effective January 1, 2001 and terminating on December 31, 2005 unless terminated sooner as provided in the agreement. Mr. Buffington's base annual salary under the agreement is \$175,000. An incentive cash bonus and stock option program are incorporated into the agreement. Additional stock options, other than those provided in the incentive program, may be granted at the discretion of the Company's Board of Directors. The agreement also provides for certain benefits, in addition to the standard Company employee fringe benefits, including but not limited to reimbursement of certain expenses and payment of premiums on a \$750,000 life insurance policy with Mr. Buffington's spouse named as beneficiary. The agreement also contains "noncompetition" and "invention and secrecy" clauses.

In January 1997, the Company entered into an agreement with Randy A. Hamill pursuant to which Mr. Hamill was granted an immediately exercisable option to purchase 40,000 shares of Common Stock at an exercise price of \$0.9375 per share. Upon the occurrence of a change in control of the Company (as defined in the agreement) the exercise price per share for any unexercised portion of the option would be the lower of (a) (i) one cent or (ii) the lowest price greater than one cent per share that would not cause the value to Mr. Hamill of shares acquired upon exercise to be considered an "excess parachute payment" under Section 280G of the Internal Revenue Code of 1986, as amended or (b) \$0.9375. In the event that Mr. Hamill should die while employed by the Company and the

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Company has received \$500,000 as beneficiary of a life insurance policy it maintains on Mr. Hamill's life, Mr. Hamill's estate will have the right to

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require the Company to purchase the option, if unexercised, for \$500,000 or, subject to certain limitations, to purchase up to 39,999 shares received on exercise of the option for their fair market value at that time.

On December 29, 2000, the Company and S2 Acquisition entered into an employment agreement with James E. Jones, effective as of January 1, 2001 and terminating on December 31, 2005 unless terminated sooner as provided in the agreement, pursuant to which Mr. Jones serves as the Vice President of Marketing of the Company and the President of S2 Acquisition. Under this agreement, Mr. Jones' annual base salary is \$100,000, he may also receive grants of options to purchase shares of the Company's Common Stock, and he receives the Company's standard employee fringe benefits. The agreement also contains "noncompetition" and "invention and secrecy" clauses.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of the Company's Common Stock as of March 18, 2002 by (i) each person who beneficially owned 5% or more of the outstanding Common Stock, (ii) each director, (iii) each Named Executive and (iv) all directors and executive officers as a group calculated in accordance with Rule 13d-3 under the Exchange Act. Except as otherwise noted, the persons named in the table below have sole voting and investment power with respect to the shares shown as beneficially owned by them.

NAME AND ADDRESS -----	AMOUNT BENEFICIALLY OWNED (1) -----	PERCENTAGE OF -----
L. R. Jeffrey (2) 7 Mallet Lane Far Hills, NJ 07931	250,000	
Richard M. Maurer (3) Director and Secretary Three Gateway Center Pittsburgh, PA 15222	1,492,696	4
Robert L. Ross (4) Chairman of the Board and Chief Executive Officer Three Gateway Center Pittsburgh, PA 15222	1,473,596	4
Mary Ann Jorgenson Director 4900 Key Tower 127 Public Square	12,995	

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Cleveland, OH 44114-1304

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Frederick B. Ziesenheim Director 700 Koppers Building 436 7th Avenue Pittsburgh, PA 15219-1818	12,978	
Douglas A. Buffington President, Chief Financial Officer, Chief Operating Officer and Treasurer 18 Gloria Lane Fairfield, NJ 07004	87,375	
Randy A. Hamill (5) Senior Vice President of Manufacturing and Resources and Assistant Secretary 18 Gloria Lane Fairfield, NJ 07004	74,142	
James E. Jones Director and Vice President of Marketing 3803 Corporex Park Drive Tampa, FL 33619	775,000	2
Brian Christopher 3803 Corporex Park Drive Tampa, FL 33619	225,000	
Wesmar Partners (6) MR & Associates Maurer, Ross & Co., Incorporated Three Gateway Center Pittsburgh, PA 15222	1,399,096	4
All directors and executive officers as a group (7 persons) (7)	2,527,552	7

\*Less than 1%.

(1) The numbers shown include shares covered by options that are currently exercisable as of March 18, 2002. The numbers and percentages of shares owned assume that such outstanding options had been exercised as follows: L. R. Jeffrey, Jr. - 250,000, Richard M. Maurer - 67,500, Robert L. Ross - 67,500, Douglas A. Buffington - 85,375, Randy A. Hamill - 59,892 and all directors and executive officers as a group - 280,267.

(2) Does not include 730 shares owned by various members of Mr. Jeffrey's

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family with respect to which shares he disclaims any beneficial ownership.

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- (3) Includes 25,300 shares which are held directly by three trusts of which Mr. Maurer is co-trustee and with respect to which he shares voting and investment power, 1,399,096 shares owned directly by Wesmar Partners with respect to which he shares voting and investment power and 67,500 shares underlying the options held directly by Mr. Maurer. Mr. Maurer is an officer, director and principal shareholder of Maurer Ross & Co., Incorporated, the general partner of MR & Associates, and the managing general partner of Wesmar Partners.
- (4) Includes 1,399,096 shares owned directly by Wesmar Partners and 67,500 shares underlying the options held by Mr. Ross. Mr. Ross is an officer, director and principal shareholder of Maurer Ross & Co., Incorporated, the general partner of MR & Associates, the managing general partner of Wesmar Partners.
- (5) Does not include shares owned by various members of Mr. Hamill's family with respect to which shares Mr. Hamill disclaims any beneficial ownership.
- (6) Wesmar Partners is a Delaware limited partnership whose partners are Landmark Equity Partners III, L.P., a Delaware limited partnership, and MR & Associates, a Pennsylvania limited partnership. MR & Associates is the managing partner of Wesmar Partners. Messrs. Maurer and Ross are officers, directors and principal shareholders of Maurer Ross & Co., Incorporated, a Pennsylvania corporation and the general partner of MR & Associates.
- (7) Does not include shares owned by various members of a certain officer's family with respect to which shares such officer disclaims any beneficial ownership. Includes 1,399,096 shares owned directly by Wesmar Partners (see Notes 3, 4 and 6 above).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

-----  
Transactions With Management and Others  
-----

During the fiscal year ended December 31, 2001, MR & Associates provided consulting services to the Company for \$5,000 per month. Messrs. Maurer and Ross, directors of the Company, are officers, directors and principal shareholders of Maurer Ross & Co., Incorporated, the general partner of MR & Associates. MR & Associates is the managing general partner of Wesmar Partners, a beneficial owner of more than five percent of the Common Stock.

Messrs. Maurer and Ross, as indirect owners of more than five percent of the Common Stock, had an interest in the Company's acquisition in July of the assets of NancyLopezGolf(TM), and acquisition in December of 2000, through S2 Acquisition, of Ladies Golf.

Nancy Lopez, a director of the Company as of January 1, 2001, is the President of Lopez Enterprises, which receives royalty payments and, if certain targets

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are met, options to purchase Common Stock as well as bonuses for certain tournament winnings under the licensing agreement with the Company, into which the Company entered pursuant to the July 2000 transaction to acquire the assets of NancyLopezGolf(TM). In 2001, Lopez Enterprises received royalty payments of \$200,000 from the Company.

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James E. Jones, a director of the Company as of January 1, 2001, became the holder of more than five percent of the Company's Common Stock and entered into an employment agreement with the Company and S2 Acquisition pursuant to the Company's acquisition of Ladies Golf in December of 2000. He is also the holder of a promissory note of the Company, as restated, in the principal amount of \$1,000,000, which is due in 3 installments in 2002.

During the fiscal year ended December 31, 2001, the Company retained the law firm of Squire, Sanders & Dempsey L.L.P. ("Squire, Sanders"), of which Mary Ann Jorgenson, a director of the Company, is a partner, to represent the Company in various matters for which the Company paid to Squire, Sanders fees of \$49,615 during the year.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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- (a)
  - (1) The financial statements listed in the accompanying Index to Financial Statements and Financial Statement Schedule on Page F-1 are filed as part of this report.
  - (2) The financial statement schedule listed in the accompanying Index to Financial Statements and Financial Statement Schedule on Page F-1 is filed as part of this report.
  - (3) The Exhibits listed in the accompanying Exhibit Index are filed as part of this report.
- (b) No reports on Form 8-K were filed for the fourth quarter ended December 31, 2001.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WOMEN'S GOLF UNLIMITED, INC.

Dated: March 29, 2002

By: /s/ Douglas A. Buffington

-----  
Douglas A. Buffington  
President, Chief Financial Officer,  
Chief Operating Officer and Treasurer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----
/s/ Douglas A. Buffington ----- Douglas A. Buffington	Director, President, Chief Financial Officer, Chief Operating Officer and Treasurer
/s/ Robert L. Ross ----- Robert L. Ross	Chairman of the Board and Chief Executive Officer
/s/ Richard M. Maurer ----- Richard M. Maurer	Director and Secretary
/s/ James E. Jones ----- James E. Jones	Director and Vice President
/s/ Mary Ann Jorgenson ----- Mary Ann Jorgenson	Director
/s/ Nancy Lopez ----- Nancy Lopez	Director
/s/ Frederick B. Ziesenheim ----- Frederick B. Ziesenheim	Director

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### INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

Independent Auditors' Report	F-2
Balance Sheets as of December 31, 2001 and 2000	F-3
Statements of Operations for the Years Ended December 31, 2001, 2000 and 1999	F-4



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Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999	F-5
Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2001, 2000 and 1999	F-7
Notes to Financial Statements	F-8 - F-18
Financial Statement Schedule II - Valuation and Qualifying Accounts and Reserves	F-19

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

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### INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Women's Golf Unlimited, Inc  
(formerly known as S2 Golf Inc.)

We have audited the accompanying balance sheets of Women's Golf Unlimited, Inc. (formerly known as S2 Golf Inc.) as of December 31, 2001 and 2000, and the related statements of operations, changes in shareholders' equity, and cash flows and financial statement schedule for each of the years in the three-year period ended December 31, 2001. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Women's Golf Unlimited, Inc. (formerly known as S2 Golf Inc.) as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

/s/ Rothstein, Kass & Company, P.C.

Roseland, New Jersey

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March 1, 2002

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WOMEN'S GOLF UNLIMITED, INC.  
(FORMERLY KNOWN AS S2 GOLF INC.)  
BALANCE SHEETS  
AS OF DECEMBER 31, 2001 AND 2000

	2001
	----
ASSETS	
Current Assets	
Cash	\$7,717
Accounts Receivable - Net	3,092,565
Inventories	4,406,117
Prepaid Expenses	137,799
Deferred Income Taxes	173,000
	-----
Total Current Assets	7,817,198
Plant and Equipment - Net	140,347
Deferred Income Taxes	30,000
Goodwill - Net	4,896,568
Other Assets - Net	110,255
	-----
Total Assets	\$12,994,368
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities	
Current Portion Long-Term Debt	\$1,307,243
Short-Term Borrowings	3,780,465
Accounts Payable	373,189
Accrued Expenses	348,310
Other Current Liabilities	19,735
	-----
Total Current Liabilities	5,828,942
Long-Term Liabilities	
Long-Term Debt, less Current Portion	202,413
Other Long-Term Liabilities	
	-----
Total Liabilities	6,031,355
Commitments	
Shareholders' Equity	
Common Stock, \$.01 Par; 12,000,000 Authorized	
Shares: 3,225,173 and 3,223,039 Issued and	

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Outstanding at December 31, 2001 and 2000, respectively		32,252
Additional Paid-in-Capital		6,350,736
Accumulated Profit		580,025
		-----
Total Shareholders' Equity		6,963,013
		-----
Total Liabilities and Shareholders' Equity		\$ 12,994,368
		=====

The accompanying notes are an integral  
part of these statements.

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WOMEN'S GOLF UNLIMITED, INC.  
(FORMERLY KNOWN AS S2 GOLF, INC.)  
STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	2001 ----	2000 ----
Net Sales	\$ 16,144,947	\$ 12,510,314
Cost of Goods Sold	9,369,532	8,251,834
	-----	-----
Gross Profit	6,775,415	4,258,480
	-----	-----
Operating Expenses:		
Selling	3,495,523	2,093,938
General & Administrative	2,759,711	1,647,827
	-----	-----
Total Operating Expenses	6,255,234	3,741,765
	-----	-----
Operating Income	520,181	516,715
	-----	-----
Other Income (Expense)		
Interest Expense	(413,111)	(233,385)
Other Income (Expense)	269,313	(5,307)
	-----	-----
	(143,798)	(238,692)
	-----	-----
Income Before Income Taxes	376,383	278,023
Provision for Income Taxes	212,092	57,369
	-----	-----
Net Income	\$ 164,291	\$ 220,654
	=====	=====
Earnings per Common Share - Basic	\$ 0.05	\$ 0.10
	=====	=====
Diluted	\$ 0.05	\$ 0.10

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Weighted Average Number of Shares Outstanding -		
Basic	3,223,850	2,226,312
Diluted	3,266,819	2,264,065

The accompanying notes are an integral part of these statements.

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WOMEN'S GOLF UNLIMITED, INC.  
(FORMERLY KNOWN AS S2 GOLF, INC.)  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	2001
	----
OPERATING ACTIVITIES	
-----	
Net Income	\$164,291
Adjustments to Reconcile Net Income to	
Net Cash Provided By	
Operating Activities:	
Depreciation	109,032
Amortization	380,396
Deferred Income Taxes	63,000
Issuance of Stock for Compensation	3,000
Allowance for Doubtful Accounts	331,121
Allowances for Returns	41,553
Inventory Obsolescence Reserve	28,724
Changes in Assets and Liabilities:	
Accounts Receivable	102,529
Inventory	(388,719)
Prepaid Expenses	68,183
Other Assets	(244)
Accounts Payable	(563,423)
Accrued Expenses	(94,025)
Other Liabilities	(66,372)
	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	179,046
	-----
INVESTING ACTIVITIES	
-----	
Acquisitions, Net of Cash Acquired	
Purchase of Equipment	(53,472)
	-----
NET CASH USED IN INVESTING ACTIVITIES	(53,472)
	-----
FINANCING ACTIVITIES	
-----	
Proceeds from (Repayments of) Short-Term Borrowings, Net	319,637
Proceeds from Long-Term Debt	

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Repayments of Long-Term Debt	(447,380)	
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(127,743)	
	-----	-----
INCREASE (DECREASE) IN CASH	(2,169)	
CASH - BEGINNING OF PERIOD	9,886	
	-----	-----
CASH - END OF PERIOD	\$7,717	
	=====	=====

SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash Paid During the Year For:	
Interest	\$ 342,903
	=====
Income Taxes	\$ 174,368
	=====

The accompanying notes are an integral part of these statements.

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WOMEN'S GOLF UNLIMITED, INC.  
(FORMERLY KNOWN AS S2 GOLF, INC.)  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999 (CONTINUED)

SUPPLEMENTAL SCHEDULES OF NON-CASH  
INVESTING AND FINANCING ACTIVITIES

	2001	2000
	----	----
Long-Term Debt Incurred in Connection with Acquisition	\$ -	\$1,000,000
	=====	=====
Common Stock Issued in Connection with Acquisition	\$ -	\$2,310,000
	=====	=====
Equipment Financed Through Long-Term Debt	\$ -	\$ 21,730
	=====	=====

The accompanying notes are an integral part of these statements.

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WOMEN'S GOLF UNLIMITED, INC.  
(FORMERLY KNOWN AS S2 GOLF, INC.)  
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMU PROF
	SHARES	AMOUNT		
Balance - January 1, 1999	2,219,313	\$22,193	\$4,040,795	\$ (111,
Issuance of Common Stock	800	8	1,992	
Net Income 1999	-----	-----		306,
Balance - December 31, 1999	2,220,113	\$22,201	\$4,042,787	\$ 195,
Issuance of Common Stock	2,926	30	4,970	
Issuance of Common Stock for Acquisition	1,000,000	10,000	2,300,000	
Net Income 2000	-----	-----		220
Balance - December 31, 2000	3,223,039	\$32,231	\$6,347,757	\$ 415
Issuance of Common Stock	2,134	21	2,979	
Net Income 2001	-----	-----		164
Balance - December 31, 2001	3,225,173	\$32,252	\$6,350,736	\$ 580

The accompanying notes are an integral  
part of these statements.

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WOMEN'S GOLF UNLIMITED, INC.  
(FORMERLY KNOWN AS S2 GOLF, INC.)  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Women's Golf Unlimited, Inc. (the "Company") was incorporated under the laws of the state of New Jersey on February 2, 1982. The Company manufactures and

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markets a proprietary line of golf equipment including golf clubs, golf bags, golf shoes, golf balls and accessories. The Company markets these products under various trade names and uses several additional trademarks.

### ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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 reporting period. Actual results could differ from those estimates.

### CONCENTRATION OF CREDIT RISK

The Company sells to customers primarily throughout the United States, with a small amount sold to customers overseas. The Company does not require collateral on its trade receivables and while it believes its trade receivables, net of allowances, will be collected, the Company anticipates that in the event of default it would follow normal collection procedures. Overall, management believes the Company's credit risk related to its trade receivables is limited due to the broad range of products and the large number of customers in differing geographic areas.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of cash, accounts receivable and accounts payable approximate their carrying values due to the short-term nature of the instruments. The fair value of short-term borrowings approximates their carrying value due to their variable interest rate features, which reprise quarterly. The fair value of long-term borrowings approximate their carrying value due to the interest rate which is variable based upon the prime rate.

### INVENTORIES

Inventories are valued at the lower of cost, determined on the basis of the first-in, first-out method, or market. Inventories consist of materials, labor and manufacturing overhead.

### PLANT AND EQUIPMENT

Equipment is stated at cost, less accumulated depreciation. Depreciation is provided over the estimated useful service life.

The estimated lives used in determining depreciation are:

Machinery and Equipment	5 Years
Furniture and Fixtures	7 Years

Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

Maintenance and repairs are charged to operations as incurred.

### REVENUE RECOGNITION

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The Company recognizes revenue upon the shipment of merchandise in fulfillment of orders. As of December 31, 2001 and 2000, the Company had an allowance for doubtful accounts of \$237,692 and \$320,936, respectively, allowance for discounts of \$40,000, in each year, and an allowance for returns of \$103,393 and \$93,000, respectively.

### ADVERTISING COSTS

The Company expenses costs of advertising as incurred. Advertising expenses included in selling expenses for the years ended December 31, 2001, 2000, and 1999 were approximately \$1,238,000, \$589,000 and \$511,000, respectively.

### INCOME TAXES

The Company complies with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires an asset and liability approach to financial recording for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce the deferred tax assets to the amount expected to be realized.

### OTHER ASSETS

Other assets principally include patents, trademarks and a covenant not to compete with a former officer of the Company. The patents and trademarks are amortized on the straight-line method over 15 years. The covenant not to compete was fully amortized in 1997. Management periodically evaluates the recoverability of intangible assets based upon current and anticipated net income and undiscounted future cash flows.

### EARNINGS PER SHARE

The Company complies with SFAS No. 128, "Earnings per Share." SFAS No. 128 revises certain methodologies for computing earnings per share ("EPS") and requires the dual presentation of basic and diluted earnings per share. Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised and resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted EPS is computed using the treasury stock method when the effect of common stock equivalents would be dilutive. The only reconciling item between the denominator used to calculate basic EPS and the denominator used to calculate diluted EPS is the dilutive effect of stock options issued to employees of the Company and other parties. The Company has issued no other potentially dilutive common stock equivalents.

### IMPAIRMENT OF LONG-LIVED ASSETS

The Company complies with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. The Company continually evaluates whether events and circumstances have occurred that indicated the remaining estimated useful life of long-lived assets, such as property, plant and equipment, identifiable tangibles, and goodwill may warrant revision, or the remaining balance may not be recoverable.



RECLASSIFICATIONS

Certain reclassifications to prior years' financial statements were made in order to conform to the 2001 presentation.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standard Board ("FASB") issued SFAS Nos. 141 and 142, "Business Combinations" and "Goodwill and Other Intangibles". SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill is subject to at least an annual assessment for the impairment applying a fair-value based test. Additionally, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of the acquirer's intent to do so. The Company is currently determining the impact of adopting of these statements on its financial position and results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets." This statement will be effective for fiscal years beginning after December 15, 2001. This statement established a single accounting model, based upon the framework established in SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," for long-lived assets to be disposed of by sale or to address significant implementation issues. The Company is in the process of assessing the impact of the adoption of this statement on its consolidated financial position, results of operations and cash flows.

2. INVENTORIES

Inventories consists of the following components at December 31:

	2001 ----	2000 ----
Finished Goods	\$ 793,101	\$ 641,522
Raw Materials	3,613,016	3,404,600
	-----	-----
	\$4,406,117	\$4,046,122
	=====	=====

3. PLANT AND EQUIPMENT

Plant and equipment at December 31, 2001 and 2000 were as follows:

	2001 ----	2000 ----
Machinery and Equipment	\$1,106,981	\$1,054,746
Furniture and Fixtures	103,262	94,646
Leasehold Improvements	43,554	43,554
	-----	-----

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Total	1,253,797	1,192,946
Less: Accumulated Depreciation and Amortization	1,113,450	997,039
	-----	-----
	\$ 140,347	\$ 195,907
	=====	=====

Depreciation for the years ended 2001, 2000 and 1999 was \$109,032, \$56,222 and \$46,637, respectively.

#### 4. GOODWILL (SEE NOTE 1)

Goodwill consists of the excess of cost over fair value of net assets purchased in connection with the acquisitions consummated during 2000. Goodwill is being amortized over 10 years for NancyLopezGolf(TM) and 25 years for Ladies Golf. Amortization expense for the years ended 2001 and 2000 was \$365,351 and \$91,304, respectively.

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#### 5. OTHER ASSETS

Other assets consist of the following at December 31, 2001, and 2000:

	2001	2000
	----	----
Covenant Not to Compete	\$436,277	\$436,277
Patents and Trademarks	223,809	223,809
Security Deposits	53,858	53,613
	-----	-----
Total	713,944	713,699
Less: Accumulated Amortization	603,689	588,643
	-----	-----
	\$110,255	\$125,056
	=====	=====

Amortization expense for the years ended 2001, 2000, and 1999 was \$15,045, \$16,699 and \$16,862, respectively.

#### 6. SHORT-TERM BORROWINGS

The Company has negotiated a new revolving line of credit with PNC Bank, National Association (the "Bank") allowing a maximum credit limit of \$8,000,000, less 50% of the aggregate face amount of all outstanding letters of credit, subject to various borrowing bases. The availability of funds under this line of credit varies as it is based, in part, on a borrowing base of 80% of eligible accounts receivable and 60% of qualified inventory. Substantially all of the Company's assets are used as collateral for the credit line. Interest rates are at prime plus one-quarter percent, paid monthly; the interest rate as of December 31, 2001 was 5.00% and 9.75% as of December 31, 2000. At December 31, 2001 and 2000, unused funds available to the Company under the line of credit were approximately \$679,000 and \$895,000, respectively. There were no outstanding letters of credit as of December 31, 2001 and 2000.

The credit facility contains certain covenants, which, among other items,

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require the maintenance of certain financial ratios including tangible net worth and working capital. Any event of default under the credit facility permits the lender to cease making additional loans there-under.

### 7. LONG-TERM LOAN

At December 31, 2001 and 2000 long-term debt consists of the following:

Note payable in monthly installments of \$25,000, through August 2003, plus interest at prime plus one and one-half percent. The interest rate was 6.25% at December 31, 2001.

Promissory note payable to a related party, installments of \$ 250,000 on June 30, 2002, and September 30, 2002 and a final payment of \$ 500,000 on December 31, 2002 plus interest of prime plus one-fourth of one percent. This note was originally due on December 31, 2001. The interest rate was 5.00% at December 31, 2001.

Other

Less current portion

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Maturities of long-term debt are as follows:

Year ending December 31,	
2002	\$1,307,243
2003	202,413
	-----
	\$1,509,656
	=====

### 8. PURCHASE TRANSACTIONS

During 2000, the Company made the following acquisitions:

On July 31, 2000, the Company acquired from The Arnold Palmer Golf Company (the "Seller") substantially all of the net assets of its NancyLopezGolf (TM) division, for a cash purchase price of \$4,633,333 (the "Purchase Price"). The Purchase Price was a function of projected sales volume, with a post-closing adjustment to be based on (i) changes in the net asset value between April 29, 2000 and the closing date and (ii) realization on accounts receivable in the first six months after closing. On the closing date the Company paid \$3,000,000 of the Purchase Price to the Seller, using the principal amount of a \$900,000 term loan extended to the Company by the Bank together with funds available under the Company's existing revolving line of credit with the Bank. On August 10, the Company, using funds available to it under an amendment to its existing

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revolving line of credit with the Bank, deposited \$150,000 of the Purchase Price into escrow pending the final determination of the purchase price adjustment and paid to the Seller \$1,009,405, representing the remaining balance of the Purchase Price adjusted pursuant to a mutual agreement of the parties in anticipation of the post-closing purchase price adjustment. The Company has allocated the excess cost over the fair value of net assets acquired to goodwill, which amounted to \$2,156,369, and is being amortized on a straight line basis over a period of ten years.

The acquired assets were comprised of intellectual property, accounts receivable, inventory of golf equipment and manufacturing and other physical equipment used by the Seller in the manufacture and sale of golf clubs and other golf equipment. The Company intends to use all equipment and physical property acquired to continue manufacturing and distributing the NancyLopezGolf(TM) equipment line.

On December 29, 2000, Acquisition Corp. acquired from James E. Jones and Brian Christopher (the "Selling Shareholders") all of the issued and outstanding shares of Ladies Golf, and on December 31, 2000, Ladies Golf was merged with and into Acquisition Corp., with Acquisition Corp. as the surviving entity. The purchase price was comprised of 1,000,000 shares of Common Stock of the Company, par value \$0.01 per share, and a promissory note of the Company in the principal amount of \$1,000,000 with a maturity date of December 31, 2001. Consideration for the acquisition was a function of projected sales volume, with a potential post-closing adjustment in the merger consideration shares to be based on (i) realization on accounts receivable in the first six months after the effective date of the merger, and (ii) losses on non-current inventory in the first nine months after the effective date of the merger. On May 25, 2001 Acquisition Corp. was merged with and into the Company, with the Company as the surviving entity.

The Company has allocated the excess cost over the fair value of net assets acquired to goodwill, which amounted to \$3,242,854 and is being amortized on a straight line basis over a period of 25 years.

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The acquired assets were comprised of intellectual property, accounts receivable, inventory of Lady Fairway(TM) goLf shoes and golf accessories and other physical equipment used by Ladies Golf in the design and distribution of women's golf shoes and golf accessories. The Company intends to use all equipment and physical property acquired to continue designing and distributing the Lady Fairway(TM) shoe and accessory lines.

Both acquisitions were accounted for using the purchase method of accounting. The operations of each company acquired have been included in the Company's Statement of Operations from the respective dates of acquisitions. The purchase price was allocated to the assets and liabilities based on their estimated fair value as of the dates of acquisitions.

The following unaudited proforma consolidated results of operations are presented as if the acquisitions had been made at the beginning of the respective periods.

YEAR ENDED DECEMBER 31 (UNAUDITED),	
2000	1999
----	----

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Sales	\$18,830,000	\$17,446,600
Net Loss	(152,000)	(1,326,000)
Basic loss per common share	(.07)	(.60)
Diluted loss per common share	(.07)	(.60)

### 9. INCOME TAXES

The provision for income taxes for the years ended December 31, 2001, 2000 and 1999 consists of the following:

	2001 ----	2000 ----	1999 ----
Current			
Federal	\$115,496	\$13,851	\$62,173
State	33,596	17,918	16,300
	-----	-----	-----
	149,092	31,769	78,473
	-----	-----	-----
Deferred			
Federal	53,550	21,760	62,784
State	9,450	3,840	25,644
	-----	-----	-----
	63,000	25,600	88,428
	-----	-----	-----
Total Provision for Income Taxes	\$212,092 =====	\$57,369 =====	\$166,901 =====

A summary of the differences between the actual income tax provision (benefit) and the amounts computed by applying the statutory federal income tax rate to income is as follows:

	2001 ----	2000 ----	1999 ----
Federal Tax at Statutory Rate	\$127,970	\$ 94,528	\$160,829
Increase (Decrease) in Taxes Resulting From:			
Permanent Differences	55,419		2,081
State Tax, Net of Federal Tax Benefit	28,410	1,806	28,382
Reversal of Reserves		(15,665)	(8,000)
Other	293	(23,300)	(16,391)
	-----	-----	-----
Total Income Tax Provision	\$212,092 =====	\$ 57,369 =====	\$166,901 =====

The tax effects of temporary differences that give rise to significant portions

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of the current and non-current deferred tax assets at December 31, 2001 and December 31, 2000 are as follows:

	December 31, 2001 ----	December 31, 2000 ----
Accounts Receivable Allowances	\$152,000	\$181,000
Accrued Expenses	14,000	9,000
Non-Compete Agreement	7,000	24,000
	-----	-----
Current Deferred Income Tax Assets	\$173,000	\$214,000
	=====	=====
Non-Compete Agreement	\$36,000	\$10,000
Other	(6,000)	(4,000)
	-----	-----
Non Current Deferred Income Tax Assets	\$30,000	\$6,000
	=====	=====

### 10. OPERATING LEASE

The Company currently leases its manufacturing facility and sales and executive offices located at 18 Gloria Lane, Fairfield, New Jersey 07004, comprising a total of 28,442 square feet of space. As of December 1, 2001 the Company entered into a new lease agreement for the Fairfield location for a period of three years, expiring on November 30, 2004. In December 2001, the Company consolidated the Lady Fairway(TM) operations into its Fairfield location. The Company maintains a small office in Lutz, Florida for the administrative office of Lady Fairway(TM) of approximately 800 square feet.

The annual total base rent for 2002 will be \$192,489. In addition to the base rent, the Company is obligated to pay its pro rata share of real estate taxes, assessments and water and sewer charges. Total rent expense for the years ended December 31, 2001, 2000 and 1999 was \$164,697, \$163,977 and \$152,339, respectively.

As of December 31, 2001, future minimum rental commitments under non-cancelable operating leases with terms in excess of one year are as follows:

YEAR'S ENDING DECEMBER 31	
-----	
2002	192,489
2003	192,489
2004	175,574
	-----
	560,552
	=====

### 11. COMMITMENTS

#### LICENSING AGREEMENTS

#### LADIES PROFESSIONAL GOLF ASSOCIATION

-----  
Under the terms of an agreement with the Ladies Professional Golf Association ("LPGA"), the Company is obligated to pay a license and royalty fee

based upon sales volume. Beginning in 1998, the minimum annual license and royalty fee is \$200,000 through December 31, 2003 payable in equal quarterly installments. In the event that the sum of (A) 5% of the net sales of the licensed products (other than golf shoes) up to \$1,000,000 in any calendar year, (B) 2.5% of the net sales of the licensed products (other than golf shoes) in excess of \$1,000,000 and less than \$5,000,000 in any calendar year, (C) 1% of the net sales of the licensed products (other than golf shoes) in excess of \$5,000,000, and (D) 1% of the net sales of golf shoes in any calendar year, exceeds the minimum license fee, the excess shall be paid as a royalty fee. Royalty expense for years ended December 31, 2001, 2000 and 1999 was \$200,000, \$200,000 and \$200,000, respectively.

In addition, the Company is obligated to spend a minimum of \$100,000 per year on various advertising programs and to be a "Title Sponsor" of the LPGA Teaching and Club Professionals Division Team Classic at an annual cost of \$35,000 beginning in 1999 and increasing by \$2,500 per year through the term of the agreement.

Kathy Whitworth  
-----

In October 1999, the Company entered into an Endorsement Agreement with former LPGA Tour Golf Professional Kathy Whitworth, effective January 1, 2000 through December 31, 2005. Under the terms of the agreement, Ms. Whitworth grants the Company an exclusive license to use her name, likeness, image and personal identification, singly or in any combination, in connection with the production, marketing and sale of a "Kathy Whitworth" signature line of women's golf clubs. In addition, the Company has the right to include Ms. Whitworth in two print and one television advertisement per year. The Company will pay Ms. Whitworth a base fee of \$36,000 per year in equal quarterly payments. In addition, Ms. Whitworth will receive a royalty fee of 2% of net sales of "Kathy Whitworth" line of clubs.

Ms. Whitworth agrees to use only the golf clubs and golf bags of the Company in any golf event, either professional or social, during the term of the agreement. Ms. Whitworth will serve as a golf instructor at up to 10 golf clinics per calendar year. In addition, Ms. Whitworth will represent the Company at 2 Professional Golf Association merchandise shows as their spokesperson each calendar year. The Company will reimburse Ms. Whitworth for all reasonable and necessary travel expenses in connection with her performance of the services.

Royalty expense under this agreement for the years ended December 31, 2001 and 2000 was \$66,695 and \$61,484, respectively.

Nancy Lopez Enterprises, Inc.  
-----

In July 2000, the Company entered into a licensing agreement with Nancy Lopez Enterprises, Inc., as part of the acquisition of NancyLopezGolf(TM), effective July 31, 2000 through December 31, 2007. Under the terms of the agreement, the Company must pay the licensor an annual fixed royalty in the amount of \$200,000. The Company is required to pay a royalty based on percentages of sublicense fees paid to the Company and of gross revenues as specified within the agreement if the sum of these amounts exceeds the fixed royalty amount of \$200,000. In addition, the Company issues stock options to the licensor if certain revenue targets are met and, in recognition of the increased value of the golfer identification resulting in achievements in certain tournaments, the Company agrees to pay bonuses to the licensor as specified within the agreement.

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Royalty expense under this agreement for the years ended December 31, 2001 and 2000 was \$200,000 and \$83,332, respectively.

EMPLOYMENT AGREEMENTS

The Company entered into a new employment agreement with a key executive officer effective January 1, 2001 and terminating on December 31, 2005 unless terminated sooner as provided in the agreement. The base annual salary under the agreement is \$175,000. An incentive cash bonus and stock option program are incorporated into the agreement. Additional stock options, other than those provided in the

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incentive program, may be granted at the discretion of the Company. The agreement also contains a "non-compete" clause and an "invention and secrecy" clause.

On December 29, 2000, the Company entered into an employment agreement with a key executive officer effective as of January 1, 2001 and terminating on December 31, 2005 unless terminated sooner as provided in the agreement. Under this agreement, the key executive officer's annual base salary is \$100,000 and he may also receive grants of options to purchase shares of the Company's Common Stock. The agreement also contains "non-compete" and "invention and secrecy" clauses.

OTHER LIABILITIES

Under the terms of a Separation Agreement, the Company is obligated to pay its former President \$6,000 per month for a period of ten years through March 2002 as consideration for his covenant not to compete with the Company. The obligation is recorded at its present value in other current and non-current liabilities, and accrues interest at 9% per annum.

In connection with the Separation Agreement, the Company granted its former President stock options for 250,000 shares of the Company's common stock ("Common Stock") at an exercise price of \$4.48 per share, which was the average of the closing bid and asked prices of the Company's Common Stock on the last trading date immediately preceding the effective date of the grant. Subject to certain limitations, the options were exercisable immediately and will remain exercisable until April 16, 2006. If, and to the extent that, any amount is realized in excess of the exercise price upon the sale of any Common Stock obtained upon exercise of all or any part of the options, then 65 percent of such excess amount, subject to certain limitations, is to be paid to the Company in immediately available funds concurrent with the realization event.

12. STOCK OPTIONS AND GRANTS OF STOCK

Options have been granted to current and former officers, employees and directors of the Company at the discretion of the Company's Board of Directors. Options have also been granted in connection with endorsement agreements. The table below summarizes all outstanding stock options.

NUMBER OF SHARES	RANGE OF EXERCISE PRICE	WEIGHTED AVERAGE EXERCISE P
-----	-----	-----



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Outstanding at January 1, 1999	567,670	\$0.938 - \$5.00	3.330
Granted	28,875	\$2.313 - \$3.00	2.608
	-----	-----	-----
Outstanding at December 31, 1999	596,545	\$0.938 - \$5.0	3.295
Granted	76,307	\$0.750 - \$2.563	1.479
Cancelled	(10,000)	(\$4.375)	(4.375)
	-----	-----	-----
Outstanding at December 31, 2000	662,852	\$0.750 - \$5.00	3.070
Granted	4,687	\$1.250 - \$1.650	1.432
	-----	-----	-----
Outstanding at December 31, 2001	667,539	\$0.075 - \$5.000	\$3.058
	=====	=====	=====

The Company applies the intrinsic value method in accounting for its stock plans. Accordingly, no compensation cost has been recognized for stock option grants issued to employees under any of the Company's stock option plans. If compensation cost for stock option grants issued during 2001, 2000 and 1999 had been determined under the provisions

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of SFAS No. 123, the Company's net income would have been \$164,291 \$177,188, and \$276,504, respectively. The Company's net income per share for basic and diluted in 2001, 2000 and 1999 would have been \$.05, \$.08, and \$.12, respectively.

The fair value of each stock option granted under the Company's plans was estimated on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used to value grants issued under the plans in 2001, 2000 and 1999:

	2001	2000	1999
	----	----	----
Annualized Volatility	66%	53%	46%
Risk-Free Interest Rate	4.5%	5%	5%
Expected Term of Option (in years)	3.5	3.5	3.5
Dividend Yield	N/A	N/A	N/A

The weighted average fair values per share of stock options granted during 2001, 2000 and 1999 were \$.67 \$.60, and \$3.00, respectively.

The exercise price ranges for options outstanding and exercisable at December 31, 2001 were:

	NUMBER OF SHARES OUTSTANDING AND EXERCISABLE AT DECEMBER 31, 2001	WEIGHTED AVERAGE EXERCISE CONTRACTUAL PRICE
EXERCISE PRICE RANGE	-----	-----
\$0.50 to \$2.00	253,901	\$1.460
\$2.01 to \$5.00	413,638	4.039
	-----	-----
Total	667,539	\$3.058
	=====	=====

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The Company has generally granted options that do not expire.

### GRANTS OF STOCK TO DIRECTORS

The Company compensates its non-employee directors by granting such persons shares of Common Stock having a value of \$1,000 for every meeting of the Board of Directors or committee thereof attended by such person, and shares of Common Stock having a value of \$500 if such person participated in a meeting by telephone. The number of shares issued is based on the closing price of the stock on the exchange where traded on the meeting date or the preceding date on which such shares were traded. The value of the shares issued is charged to operations as incurred.

### 13. RELATED PARTY TRANSACTIONS

During the fiscal years ended December 31, 2001 and 2000, MR & Associates provided the Company with consulting services for \$5,000 per month. Messrs. Maurer and Ross, directors of the Company, are officers, directors, and principal shareholders of Maurer Ross & Co., Incorporated, the general partner of MR & Associates. MR & Associates is the managing general partner of Wesmar Partners, a beneficial owner of more than five percent of the Common Stock.

During the fiscal years ended December 31, 2001, 2000 and 1999, the Company retained the law firm of Webb Ziesenheim Logsdon Orkin & Hanson, P.C., of which Frederick B. Ziesenheim, a director of the Company, is Vice Chairman of the Board of Directors, to represent the Company on various intellectual property matters. The Company had paid fees to Webb Ziesenheim Logsdon Orkin & Hanson, P.C. of \$48,222, \$20,520 and \$22,807, in 2001, 2000 and 1999, respectively.

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During the fiscal years ended December 31, 2001, 2000 and 1999, the Company retained the law firm of Squire, Sanders & Dempsey L.L.P., of which Mary Ann Jorgenson, a director of the Company, is a partner, to represent the Company on various matters. The Company had paid Squire, Sanders & Dempsey L.L.P. \$49,615, \$125,200 and \$22,494 in 2001, 2000 and 1999, respectively.

### 14. QUARTERLY SELECTED DATA (UNAUDITED)

	FIRST QUARTER -----	SECOND QUARTER -----	THIRD QUARTER -----
2001			
Net Sales	\$4,521,595	\$5,402,339	\$3,484,474
Gross Profit	1,871,704	2,347,175	1,449,367
Net Income (Loss)	173,928	36,248	60,681
Income per common and common equivalent share			
Basic	.05	.01	.02
Dilutive	.05	.01	.02
2000			
Net Sales	\$2,864,570	\$3,927,376	\$3,091,279
Gross Profit	950,843	1,454,317	1,035,529

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Net Income (Loss)	114,037	288,705	60,013
Income per common and common equivalent share			
Basic	.05	.13	.03
Dilutive	.05	.13	.03

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WOMEN'S GOLF UNLIMITED, INC.  
(FORMERLY KNOWN AS S2 GOLF, INC.)  
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES  
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	BALANCE AT BEGINNING OF PERIOD -----	CHARGED TO COSTS AND EXPENSES -----	CHARGED TO OTHER ACCOUNTS -----	DEDU -----
ALLOWANCE FOR DOUBTFUL ACCOUNTS				
December 31, 1999	212,562	272,919	---	270,
December 31, 2000	215,000	321,000	---	215,
December 31, 2001	320,936	331,121	---	414,
ALLOWANCE FOR RETURNS				
December 31, 1999	88,000	190,586	---	195,
December 31, 2000	83,000	116,410	---	106,
December 31, 2001	93,000	41,553	---	31,
ALLOWANCE FOR DISCOUNTS				
December 31, 1999	40,000	236,974	---	236,
December 31, 2000	40,000	261,270	---	261,
December 31, 2001	40,000	265,242	---	265,

(1) Uncollectible Accounts Written Off, Net of Recoveries.

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT*
3.1	Amended and Second Restated Certificate of Incorporation of the registrant dated June 28, 1991 (incorporated by reference to Exhibit 3.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1991).
3.2	Certificate of Amendment to the Amended and Second Restated Certificate of Incorporation of the registrant (incorporated

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by reference to Exhibit 99.0 to the registrant's current report on Form 8-K reporting the event dated June 12, 2001).

- 3.3 Amended and Restated By-laws of the registrant dated December 6, 1991 (incorporated by reference to Exhibit 3.2 of the registrant's Annual Report on Form 10-K for the year ended December 31, 1991).
- 4.1 Common Stock Purchase Warrant in favor of Wesmar Partners dated February 28, 1988 (incorporated by reference to Exhibit 4.4 of the registrant's Registration Statement No. 33-37371 on Form S-3).
- 4.2 Common Stock Purchase Warrant in favor of Wesmar Partners dated February 28, 1988 (incorporated by reference to Exhibit 4.5 of the registrant's Registration Statement No. 33-37371 on Form S-3).
- 4.3 Stock Option Agreement between the registrant and Wesmar Partners dated February 29, 1988 (incorporated by reference to Exhibit 4.6 of the registrant's Registration Statement No. 33-37371 on Form S-3).
- 10.0 Loan and Security Agreement between the registrant and Midlantic Bank, National Association dated December 29, 1994 (incorporated by reference to Exhibit 99 of the registrant's Current Report on Form 8-K dated December 26, 1994).
- 10.1 First Amendment to Loan and Security Agreement between the registrant and Midlantic Bank, National Association made as of April 9, 1996 (incorporated by reference to Exhibit 10.1 of the registrant's Annual Report on Form 10-K for the year ended December 31, 2000).
- 10.2 Second Amendment to Loan and Security Agreement between registrant and PNC Bank, National Association as successor in interest of Midlantic Bank, National Association made as of December 1, 1997 (incorporated by reference to Exhibit 10.12 of the registrant's Annual Report on Form 10-K for the year ended December 31, 1997).
- 10.3 Fourth Amendment to Loan and Security Agreement between the registrant and PNC Bank, National Association dated as of July 31, 2000 (incorporated by reference to Exhibit 10.14 to the registrant's Registration Statement No. 333-47908 on Form S-4).

EXHIBIT  
NUMBER

DESCRIPTION OF EXHIBIT\*

- 10.4 Fifth Amendment to Loan and Security Agreement between the registrant and PNC Bank, National Association made of January 3, 2001 (incorporated by reference to Exhibit 10.4 of the registrant's Annual Report on Form 10-K for the year ended December 31, 2000).
- 10.5 Sixth Amendment to Loan and Security Agreement between the registrant and PNC Bank, National Association made as of

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August 13, 2001 (incorporated by reference to Exhibit 10.20 of the registrant's Quarterly Report on Form 10-Q for the quarter ended September 28, 2001).

- 10.6 Replacement Promissory Note of the registrant in favor of James E. Jones dated December 29, 2000 and letter agreement in connection with same.
- 10.7 Lease between the registrant and Kobrun Investments, III, L.L.C. dated August 30, 2001.
- 10.8 Amended and Restated Licensing Agreement between Ladies Professional Golf Association and the registrant dated January 1, 1999 (incorporated by reference to Exhibit 10.2 of the registrant's Annual Report on Form 10-K for the year ended December 31, 1999).
- 10.9 Endorsement Agreement between the registrant and Kathy Whitworth dated October 13, 1999 (incorporated by reference to Exhibit 10.13 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1999).
- 10.10 Licensing Agreement between Nancy Lopez Enterprises, Inc. and the registrant made as of July 31, 2000 (incorporated by reference to Exhibit 10.10 of the registrant's Annual Report on Form 10-K for the year ended December 31, 2000).
- 10.11 License Agreement between the registrant and Raymond Lanctot Ltee/Ltd. dated June 28, 1999 (incorporated by reference to Exhibit 10.12 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1999).
- 10.12 Asset Purchase Agreement among the registrant, APGC Holdings Company, LLC and The Arnold Palmer Golf Company dated July 31, 2000 (incorporated by reference to Exhibit 2.0 to the registrant's Current Report on Form 8-K reporting the event dated July 31, 2000).
- 10.13 Agreement and Plan of Reorganization, dated as of June 22, 2000, among the registrant, S2 Golf Acquisition Corp., Ladies Golf Equipment Company, Inc., James E. Jones and Brian Christopher (incorporated by reference to Exhibit 2.0 of the registrant's Registration Statement No. 333-47908 on Form S-4).
- 10.14 1992 Stock Plan for Independent Directors of S2 Golf Inc. dated December 29, 1992 (incorporated by reference to Exhibit 10.11 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1992).

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EXHIBIT  
NUMBER

DESCRIPTION OF EXHIBIT\*

- 10.15\*\* 1998 Employee Stock Plan of the registrant (incorporated by reference to Exhibit 10.15 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2000).

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- 10.16\*\* Agreement between the registrant and Randy A. Hamill dated January 2, 1997 (incorporated by reference to Exhibit 10.10 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1997).
- 10.17\*\* Employment Agreement between the registrant and Douglas A. Buffington, made April 3, 2001 and effective as of January 1, 2001 (incorporated by reference to Exhibit 10.17 of the registrant's Quarterly Report on Form 10-Q for the quarter ended March 30, 2001).
- 10.18\*\* Consulting Services Agreement between the registrant and MR & Associates made as of December 15, 2000, effective as of January 1, 2000 (incorporated by reference to Exhibit 10.18 of the registrant's Annual Report on Form 10-K for the year ended December 31, 2000).
- 10.19\*\* Employment Agreement among the registrant, S2 Golf Acquisition Corp. and James E. Jones dated as of January 1, 2001 (incorporated by reference to Exhibit 10.19 of the registrant's Annual Report on Form 10-K for the year December 31, 2000).
- 10.20 Agreement and Plan of Merger between the registrant and its wholly-owned subsidiary S2 Golf Acquisition Corp. dated as of June 15, 2001 (incorporated by reference to Exhibit 10.20 of the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
- \* In the case of incorporation by reference to documents filed by the registrant under the Exchange Act, the registrant's file number under the Act is 0-14146.
- \*\* Management contract or management compensatory plan or arrangement.