ÁLDILA

2010 Annual Report

Performance Technology

Composite Materials Golf Shafts Victory Archery

Aldila, Inc. (OTCQX: ALDA) is the premier manufacturer of carbon fiber prepreg, high performance graphite golf shafts and now with the acquisition of Victory Archery, a leader in the carbon arrow market.

Carbon Materials

Aldila manufactures composite prepreg material from its state-of-the-art composite materials facility for its golf shaft and archery business and a growing number of external customers involved in a wide array of applications.

Golf Shafts

Major golf club companies, component distributors and custom club makers use Aldila designed and manufactured graphite shafts in golf clubs assembled and marketed throughout the world. Aldila shafts continue to be the most popular graphite shafts on the PGA Tour. During 2010, more players played Aldila shafts in their woods and hybrid clubs than any other manufacturers' shafts.

Victory Archery

For years, Victory Archery has designed and manufactured the world's finest carbon fiber arrows. Now part of the Aldila family, Victory will combine their expertise with that of Aldila to bring even more high performance archery products to market. Victory is now the only arrow brand that offers total control of the manufacturing experience, producing its own raw material and manufacturing arrows in its own factory.

Dear Fellow Shareholders:

2010 Year in Review

2010 was an interesting year for Aldila with the usual twists and turns that we have come to expect in this ever changing, always challenging economic environment. We enjoyed a strong run through the first three quarters of the year. Our performance exceeded 2010 industry numbers that showed total golf equipment sales declining by roughly 2% in 2010. The key market segment for driver club sales were off 12% in 2010 and units were down 20% from their peak in 2006. The golf industry in general and golf equipment sales in particular have suffered through several years of tough conditions. This is not surprising because the macroeconomic conditions have been severely stressed since the second half of 2008 and we are still waiting for a solid recovery, especially in golf equipment sales. Golf sales are dependent on discretionary spending. As the economy continues to improve the industry will likely regain at least some of the lost sales over the last several years.

All in all 2010 was a good year for Aldila considering the overall golf market and the fragile state of the economy. Our 2010 golf shaft sales were up 2% for the year and our Composite Material sales were up 56%. We recorded net income of $2.3 million in 2010 versus a loss of $243,000 in 2009.

(in millions)	*Q1*	*Q2*	*Q3*	*Q4*	*YTD*
Consolidated Sales					
2010	$16.1	$14.4	$12.2	$12.0	$54.7
2009	$13.8	$10.6	$10.7	$14.7	$49.8
Percentage Change	17%	36%	15%	(19)%	10%
Composite Products					
2010	$13.4	$11.3	$9.5	$9.3	$43.6
2009	$12.3	$9.0	$9.0	$12.3	$42.6
Percentage Change	9%	25%	6%	(24)%	2%
Composite Materials					
2010	$2.7	$3.1	$2.7	$2.6	$11.1
2009	$1.5	$1.5	$1.7	$2.5	$7.2
Percentage Change	83%	100%	61%	7%	56%

Q1 Recap –

- The momentum from the fourth quarter of 2009 carried through the first quarter of 2010. The sell-in at retail was strong as the inventory levels throughout the retail channels were fairly lean.
- We experienced a 9% increase in our golf shaft sales on a 19% increase in units sold. Our average selling price of shafts shipped declined by 8% as compared to the comparable quarter in the previous year.
- Sales in our Composite Materials division continued its steady growth with an 83% increase in sales as compared to our previous year.

Q2 Recap -

- We continued to see sales gains in both of our divisions as compared to comparable quarter in the previous year.
- Composite Products sales increased by 25%.
- Composite Materials sales increased by 100% over comparable quarter in the previous year and had its fifth sequential quarter increase in sales from $1.5 million in the first quarter of 2009 to a segment record of $3.1 million in the second quarter of 2010.

Q3 Recap -

- We continued to experience relatively strong sales during what is a historically weak quarter with a 15% increase in our consolidated sales as compared to the same quarter in the previous year.
- We experienced a 6% increase in golf shaft sales as compared to the third quarter of 2009; however, we began to see a slow-down around the end of August and into September.
- Composite Materials sales were down off its record second quarter, but still showed a strong 61% increase over the third quarter sales of 2009.

Q4 Recap -

- Our fourth quarter consolidated sales experienced a relatively sharp decline in sales of $12 million versus $14.7 in 2009.
- This was driven by a drop in golf shaft sales of 24%, while Composite Materials showed an increase of 7% versus last year.
- During the month of October we experienced our lowest golf shaft sales of the year. What was unusual was the fact that the drop in revenues was concentrated in our OEM Production shaft segment where sales decreased by 40% in the fourth quarter of 2010 versus the fourth quarter of 2009.

During 2010 we continued to look for any cost savings strategy that made sense, as we have been successful over the years in implementing many initiatives that have reduced our costs and allowed us the privilege to survive and at times even thrive over the past 37 years of our existence. Along those lines, in January 2010 we announced the somewhat controversial decision to voluntarily delist our common stock from the NASDAQ Stock Market and move our common stock listing to the OTCQX U.S. Premier over the counter market. The move to list on the OTCQX is consistent with our ongoing efforts to reduce corporate expenses. We have realized significant savings from this move. We also have freed up considerable time for management to focus on Aldila's strategy and operating performance.

Progress on the Professional Tours

We continued to enjoy great results in professional golf during 2010. Aldila shafts were used to win 15 events on the PGA Tour and 15 events on the Nationwide Tour. Our shafts remain the most popular shafts on Tour with more wood shafts and hybrid shafts in play than any other shaft manufacturer. Players using our shafts in their drivers won over $43 million on the PGA Tour during 2010. The PGA Tour's Player of the Year used our Aldila RIP® to win the U.S. Open as well as three other events worldwide. Two players on the PGA Tour broke the 60 barrier shooting 59's using Aldila wood shafts. In addition to the Player of the Year, the Comeback Player of the Year and the Rookie of the Year also played Aldila shafts during 2010. In addition to an incredible year on the PGA Tour, Aldila shafts were also the most popular wood and hybrid shafts with PGA Club Professionals during their national championship. We feel professional golf is the ultimate proving ground for new technology and the strength of our numbers on Tour suggests we have a performance advantage over the competition. After testing extensively on Tour, we introduced our widely popular Aldila RIP® shaft during 2010 and it was included in many major manufacturer product lines.

Aldila engineers have designed and patented multiple golf shaft technology platforms that provide the foundation for Aldila new product innovations for the years ahead. The Aldila Technology Triad of Micro Laminate®, S-core™ and RIP® Technology are all unique, performance-enhancing design technologies that will allow Aldila to continue to be the frontrunner in golf shaft performance. For OEMs, fitters, green grass pros and avid golfers who are always looking for a new compelling story, Aldila is the leading graphite golf shaft manufacturer delivering innovative, performance-driven, technological and visually engaging products.

Composite Materials

Our Composite Materials business experienced a great year in 2010 with sales increasing 56% versus sales in 2009. This represented a record year in sales for the Composite Materials Division. We expect to see continued growth in this business unit and we have invested in additional people and equipment to support this anticipated growth. We added key people in 2010 to continue to build a world class organization to better compete in an expanded field of market segments. Historically, our main market has been sporting goods applications because our knowledge base is quite large in this area. With the addition of new sales people and equipment we are now able to reach out into the industrial and aerospace market segments. While lengthy material qualifications occur with regularity in these market segments, we expect to be successful in this endeavor. Our facility is clean and bright and equipped with modern composite material prepreg equipment. It has large, installed capacity with 7 production lines that enable us to quote shorter lead times than many of our competitors. We are an independent prepregger with no reliance on any one carbon fiber producer, unlike several of our competitors that are owned by large, vertically integrated carbon fiber manufacturers driven by the need to consume their own fiber through their prepreg operations. We believe we have a competitive advantage because of this independence resulting in our ability to access virtually all carbon fibers in the world for our customers needs. We work to provide superior customer service and technical help with customer processing problems if they should occur.

Victory Archery Acquisition

We closed on the acquisition of Victory Archery at the end of December 2010. We have been interested for a number of years in the branded carbon arrow industry because of its potential in offering unique synergies to our business model. The Victory brand is very well regarded and we believe it is positioned for growth. Aldila, a vertically integrated manufacturer through prepreg, will be able to apply its world class expertise in high volume production of carbon fiber based tubular structures with its own produced prepreg raw materials. This will be a point of differentiation and a competitive advantage. No other arrow brand currently offers total control of the manufacturing experience, producing its own raw materials and producing arrows in its own factory. This is the business model we have used successfully for many years in our market leading graphite golf shaft business. We will transition production from a factory in Tijuana, Mexico to our state of the art, low cost shaft factory in Vietnam. We expect that we can grow this business going forward and believe this will be a profitable addition for our Company.

Synergies in our Business Model

With the addition of Victory Archery we now have three business units. We believe they fit together in a way that provides synergies across each business. Our Composite Materials business provides 100% of the composite material requirements for our Composite Products business segment comprised of our golf shaft and arrow business. As the volume increases in Composite Materials we benefit from the increased fixed cost absorption. Our Composite Products segment enjoys a steady, reliable supply of high quality raw material and access to a wider array of raw material configurations not typically available on the open market. Our raw material lead-times for our internal requirements are shorter than what most of our competitors face on the open market. Our vertical integration offers us a unique point of differentiation in the graphite golf shaft and arrow industries.

We own our factories. We do not outsource our manufacturing of golf shafts or arrows like many of our competitors. We strive to have full control of the manufacturing process from prepreg through final part fabrication to ensure the consistent quality and reliable delivery we are known for and to protect the integrity of our brands. Our arrow production will fit neatly alongside our golf shaft production in our Vietnam factory, as the manufacturing enjoys a similar fabrication process. The move of arrow production to Vietnam from the previous owner’s Mexico factory offers us substantial savings in manufacturing cost, due to lower labor cost and reduced overhead due to our existing factory and management team in Vietnam.

Dividends

Aldila continues to look for ways to generate returns for its shareholders and has done so through dividends. On December 17, 2010, Aldila paid a $0.25 special dividend to shareholders. Aldila has returned $9.35 in dividends per share to its shareholders since 2004, including a $5.00 special dividend in 2008. Aldila has issued four special dividends since 2004, totaling $7.25 in dividends per share. Aldila’s Board of Directors reviews the Company’s dividend policy at each Board Meeting.

In closing, first and foremost I would like to thank our many employees around the globe who work relentlessly to make Aldila a better company. Our ability to work together and to stay fully focused on our customers is and will always be a top priority.

I would also like to thank our Board of Directors and a special thanks to three members who agreed to leave the Board in the interest of supporting our cost cutting measures during 2010. They are Bryant Riley, Andrew Leitch and Michael Sheldon. These gentlemen provided me with years of contributions, insights and support. I thank Tom Brand as well for his usual, steady advice and counsel over the many years he has served and continues to serve on our Board.

I thank our shareholders for their continued trust and support, and our customers for their trust in our brand and our business model and whom it is a privilege to serve.

Sincerely,

Peter R. Mathewson
Chairman of the Board and CEO
Aldila, Inc.

April 18, 2011

Aldila, Inc. Annual Disclosures

For the Year Ended December 31, 2010

Part A General Company Information

Item I The exact name of the issuer and its predecessor (if any).

The name of the Company is Aldila, Inc. (the "Company" or "Aldila").

Item II The address of the issuer's principal executive offices.

14145 Danielson Street, Suite B
Poway, CA 92064
Telephone: 858-513-1801
Facsimile: 858-513-1870
Web: www.aldila.com

Item III The jurisdiction and date of the issuer's incorporation or organization.

The Company was incorporated under the laws of Delaware in 1991.

Part B Share Structure

Item IV The exact title and class of securities outstanding.

The Company's Articles of Incorporation authorize 30,000,000 shares of common stock, (Par Value Per Share $0.01). There were 5,349,863 common shares outstanding as of December 31, 2010. The shares are assigned CUSIP No. 014384200. The shares are quoted on the OTCQX under symbol "ALDA".

The Company's Articles of Incorporation authorize 5,000,000 preferred shares (Par Value Per Share $0.01). There were no preferred shares issued and outstanding as of December 31, 2010.

Item V Par or stated value and description of the security.

Item IV is incorporated by reference for a complete description of the security.

Common Shares: Dividends may be declared from time to time. The

Company declared and paid a $0.25 cash dividend on its common shares during the year ended December 31, 2010. The Company did not declare any dividends during the year ended December 31, 2009. Each share is entitled to one vote and shares do not have preemptive rights.

The Company does not have specific provisions in its bylaws designed to prevent a change in control.

Item VI The number of shares or total amount of the securities outstanding for each class of securities authorized.

	As of the year ended December 31, 2010	2009
Common shares		
Authorized:	30,000,000	30,000,000
Outstanding:	5,349,863	5,202,156
Freely Tradable (public float):	3,874,244	4,213,772
Number of beneficial holders:	approx 2,705	approx 2,451
Number of record holders:	231	293
Preferred shares		
Authorized:	5,000,000	5,000,000
Outstanding:	-	-
Freely Tradable (public float):	-	-
Number of beneficial holders:	-	-
Number of record holders:	-	-

Part C Business Information

Item VII The name and address of the transfer agent.

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
(800) 937-5449

Item VIII The nature of the issuer's business.

General

The Company was founded in San Diego, California in 1972 and is a leading designer and manufacturer of high-quality innovative graphite (carbon fiber-based composite) golf shafts in the United States today. Aldila now conducts its operations through its subsidiaries, Aldila Golf Corp. ("Aldila Golf") and Aldila Materials Technology Corp ("AMTC"). Aldila Golf manufactures Composite Products and Composite Materials. AMTC was previously established as a separate company, which contained the Company's previously owned carbon fiber operations.

In 1994, the Company started production of its principal raw material for golf shafts, graphite prepreg, which consists of carbon fibers combined with epoxy resin in sheet form. See "Manufacturing—Composite Materials." The Company now produces substantially all of its graphite prepreg requirements internally and also sells prepreg externally to third parties.

In 1998, the Company, through its AMTC subsidiary, established a manufacturing facility in Evanston, Wyoming for the production of carbon fiber; in an effort to further vertically integrate its manufacturing operations. On October 29, 1999, SGL Carbon Fibers and Composites, Inc. ("SGL") purchased a 50% interest in the Company's carbon fiber manufacturing operation. The Company and SGL entered into an agreement to operate the facility through a limited liability company with equal ownership interests between the joint venture members. The Company and SGL also entered into supply agreements with the new entity, Carbon Fiber Technology LLC ("CFT"), for the purchase of carbon fiber at cost plus an agreed-upon mark-up. Profits and losses of CFT were shared equally by the partners. The Company sold its remaining 50% interest in CFT to SGL on November 30, 2007. The Company secured a five year supply agreement with CFT. The agreement allows, but does not require, the Company to purchase up to 900,000 pounds of carbon fiber during the first year and up to approximately 996,000 pounds of carbon fiber in years two through five.

On December 31, 2010, the Company announced that it had finalized the acquisition of the assets, including accounts receivable, inventory, equipment and intellectual property, of Victory Archery, which was a product line of Miramar Strategic Ventures, LLC ("MSV"). Victory Archery's products primarily consist of carbon arrows and related accessories used in the archery industry. The new archery division will be included in the Company's Composite Products business segment.

Products

Composite Products—

Graphite Golf Shafts - The Company believes it is well positioned to remain a leader in the market for graphite shafts due to its innovative and high-quality products, strong customer relationships, design and composite expertise and significant manufacturing capabilities.

Most golf clubs being sold today have shafts constructed from steel or graphite, although limited numbers are also manufactured from other materials. Graphite shafts were introduced in the early 1970's as the first major improvement in golf shaft technology since steel replaced wood in the 1930's. The first graphite shafts had significant torque (twisting force) and appealed primarily to weaker-swinging players desiring greater distance. Graphite shaft technology has subsequently improved so that shafts can now be designed for golfers at all skill levels.

Unlike steel shafts, the design of graphite shafts is easier to alter with respect to weight, flex, flex location, balance point and torque to produce greater distance, increased accuracy and reduced club vibration resulting in improved "feel" to the golfer. The improvements in the design and manufacture of graphite shafts and the growing recognition of their superior performance characteristics for many golfers compared to steel have resulted in increased demand for graphite shafts by golfers of all skill levels. The initial acceptance of graphite shafts was primarily for use in woods. According to the 2010 U.S. National Consumer Survey ("2010 Survey"), conducted by The Darrell Survey Company, graphite continues to dominate the professional and consumer wood club market. The 2010 Survey found that over 99% of new drivers purchased contained graphite shafts. In hybrid clubs, (also known as utility clubs and driving irons), 99% of the new clubs purchased had graphite shafts in them. The acceptance of graphite shafts in irons has not achieved the same success as in metal woods and hybrids. The 2010 Survey found that irons with graphite shafts accounted for 25% of new club purchases.

Aldila offers a broad range of innovative and high-quality graphite golf shafts designed to maximize the performance of golfers of every skill level. The Company manufactures hundreds of unique graphite shafts featuring various combinations of performance characteristics such as weight, flex, flex point, balance point and torque. All of the Company's shafts are composite structures consisting principally of carbon fiber and epoxy resins. The Company regularly evaluates new composite materials for inclusion in the Company's golf shafts and new refinements on designs using current materials.

The Company's shafts, which constituted approximately 80% of net sales in the year ended December 31, 2010, are designed in partnership with its customers (principally golf club manufacturers) to accommodate specific golf club designs. In addition, the Company researches new and innovative shaft designs on an independent basis, which has enabled the Company to produce a variety of new branded shafts and co-branded shafts as well as generate design ideas for customized shafts. The Company's branded and co-branded models are typically sold to golf club manufacturers, distributors and golf pro and repair shops and are used either to assemble a new custom club from selected components or as an after-market re-shaft of existing clubs. The Company also helps develop cosmetic designs to give the customer's golf clubs a distinctive look, even when the customer does not require a shaft with customized performance characteristics. The prices of Aldila shafts typically range from $5 to $300.

The Company introduced the NV Prototype at the January 2003 PGA Merchandise Show and subsequently renamed it to the NV®. The NV® went on to become the most successful new product launch in the Company's history and returned Aldila to the forefront of the composite shaft industry. The NV® features the Company's exclusive Micro Laminate Technology® ("MLT"). The Company followed up the NV® with the introduction of the NVS™, NV ProtoPype®, NV® Hybrid, NVS™ Hybrid and the Gamer® shafts in 2004. All of these product line extensions and new product lines target specific objectives, whether it is for a higher initial launch angle, more controlled launch angle or reduced torque to target various golf enthusiasts.

In the spring of 2006, Aldila began shipments of VS Proto™ and the VS Proto™ Hybrid. Both are high-end, high performance shafts featuring carbon nanotubes as well as aerospace carbon fibers and Aldila's exclusive high performance resin system. In 2007, Aldila began shipping the Aldila DVS® wood and hybrid shaft. The DVS® features a new responsive tip design combined with very low torque to maximize kick at impact while still maintaining accuracy. The DVS® is also constructed with Aldila's Micro Laminate Technology® and features carbon nanotubes for optimal feel and performance.

The Company introduced the VooDoo® shaft in June of 2008 featuring S-core Technology™. We began offering it on Tour with the VooDoo® name and colors in February of 2008. What sets the VooDoo® apart from other shafts is its patent pending S-core, or stabilized core, Technology® designed to increase distance and provide outstanding accuracy with each swing. The shaft utilizes a high modulus carbon fiber stabilizing rib running the length of the shaft. The internal rib system increases hoop strength and cross sectional stiffness by approximately 80% greater than conventional graphite shafts, and up to 60% greater than competitors' attempts at cross sectional stabilization. This increased stability allows the VooDoo® to better resist shaft ovaling and deformation during the swing, which maximizes energy transfer to the ball and because the shaft's symmetry is maintained throughout the swing, it loads and unloads more consistently, enabling you to more reliably deliver the club head to the ball with every swing.

In early 2010, the Company introduced the Aldila RIP® to the PGA Tour and it was released to the market during the summer of 2010. The Aldila RIP® employs patent-pending technology and exclusive materials to completely transform shaft design from the inside out. RIP Technology® repositions the materials and patterns to maximize the flexural and torsional performance characteristics of the carbon fiber. Through the use of computer modeling technology and exclusive materials provided by the Aldila Materials Division, Aldila engineers were able to completely rethink golf shaft design and performance. The result is a revolutionary shaft with optimum flex and torque characteristics with incredible feel. RIP Technology® provides a shaft with lower torque, increased tip stability, and better tip stiffness control than any shaft made with similar materials employing a conventional ply configuration.

The Company believes that it will continue to be successful in the branded segment for the foreseeable future and has focused its engineering, marketing and advertising efforts in support of this business.

Archery Products-Through the Company's acquisition of Victory Archery, the Company will begin selling Archery related products in 2011, including carbon arrows, stabilizers and other archery related accessories. Victory Archery was a product line of MSV. The product line was founded in 2007. It consists of the following product names: Victory Armor Piercing "VAP", VForce, VForceHV, VX22, VX22HV, XRinger, XRingerHV, X-Killer, XBolt, XBolt Pink and VForce Pink.

Composite Materials—

Since 1994, the Company has manufactured prepreg material for its production of golf shafts. The Company manufactures almost all of the prepreg that it uses in its golf shaft operations. In 1998, the Company began selling prepreg manufactured in its Poway, California manufacturing facility to third parties. Net sales of prepreg represented approximately 20% of the Company's aggregate net sales in 2010. The Company expanded its prepreg operations beginning in 2005 and now has six, twenty four inch tape lines and one, fifty inch wide tape line. In addition, the Company has two resin filmers which provide film sets for its prepreg operations and accommodates sales of adhesive film to external third parties.

Other Products—

The Company also manufactures other tube products for various applications, all of which use manufacturing operations similar to graphite shafts. The Company does not expect these applications to have a material affect on its operations.

Product Design and Development

Aldila is committed to maintaining its reputation as a leader in innovative shaft design and composite materials technology. The Company believes that the enhancement and expansion of its existing product lines and the development of new products are necessary for the Company's growth and success. The Company's research and development efforts are done in-house. The Company's research and development spending was approximately $2.8 million and $2.7 million for the years ended December 31, 2010 and 2009, respectively. Such costs were included in cost of sales.

Graphite Shafts

Graphite shaft designs and modifications are frequently the direct result of the combined efforts and expertise of the Company and its customers to develop an exclusive shaft for each customer's clubs. New golf shaft designs are developed and tested using a CAD/CAE golf shaft analysis program, which evaluates a new shaft design with respect to weight, torque, flex point, tip and butt flexibility, swing weight and other critical shaft design criteria. In addition, the Company researches new and innovative shaft designs on an independent basis, which has enabled the Company to produce a variety of new branded shafts as well as to generate design ideas for customized shafts. To improve and advance product designs as they relate to composite technology and the shaft manufacturing process, the Company's engineers utilize existing materials, such as boron, Kevlar, fiberglass, ceramic, thermoplastic and carbon fiber.

The Company's engineers also look to newer, more advanced materials such as carbon nanotubes. Nanotechnology is a fast growing field of research that has potential for structures such as composite golf shafts. The Company believes it is one of the first major shaft companies to employ carbon nanotubes in shaft design, and is at the forefront of utilizing this emerging technology in golf shaft development. The Company's design research also focuses on improvements in graphite shaft aesthetics since cosmetic appearance has become increasingly important to customers.   Although the Company emphasizes these research and development activities, there can be no assurance that Aldila will continue to develop competitive products or otherwise respond successfully to emerging market trends.

The Company has applied its composite materials expertise on a limited basis to other products in recent years, graphite tubing and other molded parts on a special order basis.

Composite Materials

Composite material products are developed and manufactured to support the Company's golf shaft manufacturing requirements and outside sales demand. The Company is focused on developing and providing world class quality composite materials for a variety of applications other than golf. These products are developed based upon a variety of requests and include variations in thickness, fiber types, combinations of fibers and fabrics, processing cure cycles and alternative resin matrices. The Company provides a wide range of unidirectional prepregs, prepreg fabrics, and film adhesives with high performance resins that can be cured from 180°F to 400°F available in widths from 4 to 50 inches wide. The Company utilizes a flexible manufacturing model that enables it to provide short lead times and accommodate customer change order requests. The Company's focus on continuous process improvement and technological research enables the Company to be competitive in the world market as a materials supplier.

Customers and Customer Relations

The Company believes that its close customer relationships and responsive service have been significant elements of its success to date, establishing itself as a premier graphite shaft company and expanding composite materials company. The Company has two distinct customer service departments, one for graphite shaft customers and one for composite material customers. Each department is specialized in order to accommodate their specific customer base. The Company's graphite shaft customers often work together with the Company's graphite shaft engineers when developing a new golf club in order to design a club that maximizes the performance features of the principal component parts: the grip, the clubhead and the Aldila shaft. The Company's partnership relationship with all its customers' continues after the products have been developed. Following the design process, the Company continues to provide high levels of customer support and service in areas such as quality control and assurance, timely and responsive manufacturing, delivery schedules and education. The Company believes the physical proximity of its headquarter facilities to many of its graphite shaft customers has facilitated a high degree of customer interaction and responsiveness to their specific customer needs. While the Company has had long-established relationships with most of its graphite shaft customers, it is not the exclusive supplier of graphite shafts to most of them and generally does not have long-term supply agreements with its customers.

For fiscal year 2010, the Company had 642 golf shaft customers and 84 composite materials customers. The golf shaft customers included 69 golf club manufacturers and 86 distributors, with the balance principally consisting of custom club assemblers, pro shops and repair shops. However, the majority of the Company's sales have been and may continue to be concentrated among a relatively small number of customers. Sales to the Company's top five customers represented approximately 58% and 56% of net sales in 2010 and 2009, respectively.

Historically, Aldila's principal customers have varied as a result of general market trends in the golf industry, in particular, the prevailing popularity of the various clubs that contain Aldila's shafts. As a result, there typically are changes in the composition of the list of the Company's ten most significant customers from year to year. Due to the substantial marketplace success of their clubs in recent periods, for the last several years the Company's largest customers have been Acushnet Company, Callaway Golf, and Ping. While the Company believes its relationship with each of these major customers is good, the Company is not the exclusive supplier to any of them. The Company's sales to its principal customers have varied substantially from year to year.

Customer	2010	2009
Ping	22%	20%
Callaway Golf	12%	11%
Acushnet Company	8%	10%

Because of the historic volatility of consumer demand for specific clubs, as well as continued competition from alternative shaft suppliers, sales to a given customer in a prior period may not necessarily be indicative of future sales and it is often difficult to project the Company's sales to a given customer in advance.

Marketing, Advertising and Promotion

The Company's marketing efforts are geared towards its graphite shaft business. Its strategy is designed to encourage golf club manufacturers to select and promote Aldila shafts and to increase overall market acceptance and use of graphite golf shafts. The Company utilizes a variety of marketing and promotional channels to increase sales of Aldila brand name shafts through its network of distributors and to support Aldila's brand name recognition and reputation among consumers for offering consistently high quality products designed for a wide range of golfers. Although the Company has very limited sales directly to the end users of its products, the Company believes that its brand name recognition contributes to the marketability of its customers' products. In addition, Nick Price serves on the Company's advisory staff and assists in its marketing efforts. Aldila's marketing and promotion expenditures were approximately $2.1 million and $1.9 million in 2010 and 2009, respectively. The Company does not currently incur significant marketing expenses for its products other than golf shafts.

Sales and Distribution

Within the golf club industry, most companies do not manufacture the three principal components of the golf club—the grip, the shaft and the clubhead—but rather source these components from independent suppliers that design and manufacture components to the club manufacturers' specifications. As a result, Aldila sells its graphite shafts primarily to golf club manufacturers and to a lesser extent, distributors, custom club shops, pro shops and repair shops. Distributors typically resell the Company's products to custom club assemblers, pro and custom club shops, and individuals. The Company uses its internal sales force in the marketing and sale of its shafts to golf club manufacturers and distributors. Sales to golf club manufacturers and assemblers accounted for approximately 76% of net sales for the year ended December 31, 2010 as compared to 80% for the previous year.

Composite materials sales, which represented 20% of the Company's 2010 net sales, are made primarily to manufacturers of composite products. The Company predominantly has utilized its internal sales force in the marketing and sale of these products to its customers in the past and will continue to utilize its internal sales force for the sale of prepreg in the future.

International sales represented 41% and 46% of net sales for the years ended December 31, 2010 and 2009, respectively. The Company's international sales have increased from 18% in 2004 to 41% in 2010. A significant portion of the increase is attributed to increased sales to customers in China. The majority of these customers are assemblers in China, with the end product usually being shipped back to the United States or Europe. See Note 13 in the Notes to Consolidated Financial Statements for further breakdown of our international sales and long-lived assets.

Manufacturing

The Company believes that its manufacturing expertise and production capacity differentiate it from many of its competitors and enable Aldila to respond quickly to its customers' orders and provide sufficient quantities on a timely basis. The Company today operates two golf shaft manufacturing facilities and one prepreg manufacturing facility. During its 38 years of operation, the Company has improved its manufacturing processes and believes it has established a reputation as the industry's leading volume manufacturer of high performance graphite shafts.

Shaft Manufacturing Process.

The process of manufacturing a graphite shaft has several distinct phases. Different designs of Aldila shafts require variations in both the manufacturing process and the materials used. In traditional shaft designs, treated graphite known as "prepreg" (See Composite Materials Manufacturing Process) is rolled onto metal rods known as mandrels. The graphite is then baked at high temperatures to harden the material into a golf shaft. At the end of the manufacturing process, the shafts are painted and stylized using a variety of colors, patterns and designs, including logos and other custom identification. Through each phase of this process, the Company performs quality control reviews to ensure continuing high standards of quality and uniformity to meet exacting customer specifications. The Company's shaft manufacturing facilities are located in Zhuhai, China and Ho Chi Minh City, Vietnam. Over the past several years the majority of the Company's shafts have been manufactured in China. The primary materials currently used in the Company's graphite shafts are prepreg, paints, inks and heat transfer decals.

Composite Materials (Prepreg) Manufacturing Process.

The Company produces substantially all of its prepreg requirements internally and is dependent on its own prepreg production operation to support its shaft manufacturing requirements and for its outside sales of composite materials. The Company is, however, somewhat dependent upon certain prepreg suppliers for types of prepreg that it does not produce and, therefore, the Company expects to occasionally purchase some prepreg products from outside suppliers in the future for its graphite shaft business. The manufacturing of prepreg is usually a three step process: first, resin components are mixed with catalyst to form a resin system, second, the mixed resin is applied to paper utilizing one of the Company's state of the art resin filmers, and lastly, the completed film set is combined with carbon fiber and heated through various stages at various temperatures to allow the resin to release into carbon fiber and complete a roll of prepreg.

Environmental Matters

The Company is subject to various federal, state, local and foreign environmental laws and regulations, including those governing the use, discharge and disposal of hazardous materials as the Company uses hazardous substances and generates hazardous waste in the ordinary course of its manufacturing of graphite golf shafts, other composites, graphite prepreg and carbon fiber. The Company believes it is in substantial compliance with applicable laws and regulations and has not, to date, incurred any material liabilities under environmental laws and regulations; however, there can be no assurance that environmental liabilities will not arise in the future, which may affect the Company's business.

Competition

Aldila operates in a highly competitive environment in both the United States and international markets for the sale of its graphite golf club shafts. The Company believes that it is the largest supplier of graphite shafts to the United States club market, which results from its ability to establish a premium brand image and reputation among golf club companies as a value-added supplier with competitive prices. The Company believes that it competes in the premium branded and co-branded segment of the graphite golf shaft industry with several companies. The Company believes that its major competitors in this segment of the graphite shaft market include but are not limited to, Fujikura, Mitsubishi, UST, GDI and Grafalloy (a True Temper Company). This market is a highly competitive market and a recognized brand name with PGA Tour acceptance is required to compete in this market. The largest and most competitive segment of the graphite golf shaft market is the OEM shaft market for OEM stock shafts. To compete in this market a company must meet strict shaft specifications, have a large production capacity able to meet tight lead times, and deliver quality products. The Company competes with the aforementioned competitors in this market along with golf club assemblers. Golf club assemblers are one stop shops that assemble the clubs and often manufacture golf club heads and shafts. The Company believes it has more shaft capacity, with its multiple manufacturing locations, than its competitors, which allows the Company some flexibility in where to produce the shafts and compete on its ability to meet tight lead times and deliver quality product. Presently, the industry has substantial excess graphite shaft manufacturing capacity both in the United States and in other countries.

The Company competes for sales of carbon arrows and other archery accessories in the United States and in Europe. The Company believes that its major competitors in this industry include but are not limited to, Easton, Eastman and Gold Tip. The Company is the newest of the four, but believes it brings unique abilities to the market as it is the only arrow company that is vertically integrated through its raw materials. The Company believes it will be successful in this new industry.

The Company also competes for sales of prepreg with other producers of prepreg, many of whom have substantially greater research and development, managerial and financial resources than the Company. Some producers have been producing prepreg for substantially longer periods of time than the Company, and represent significant competition to the Company. The Company's ability to compete in the sale of prepreg is dependent to some extent on the demand from manufacturers and consumers of prepreg products utilizing the types of products the Company produces. In addition, the ability to purchase specific fiber when required could limit the Company's ability to compete in prepreg sales.

Intellectual Property

The Company utilizes a number of patents, trademarks and logos in connection with the sale and advertising of its products. The Company takes all reasonable measures to ensure that any product bearing an Aldila or Victory trademark reflects the consistency and quality associated with the Company's products and intends to continue to protect them to the fullest extent practicable. As of December 31, 2010, the Company had approximately 42 United States trademarks.

Employees

As of December 31, 2010, Aldila employed 1,225 persons on a full-time basis, including 11 in sales and marketing, 22 in research, development and engineering and 1,011 in production. The balance of the remaining employees are administrative and support staff. The number of full-time employees includes 581 persons who are employed in the Company's China facility, 461 persons who are employed in the Company's Vietnam facility and 183 persons who are employed in the Company's Poway, California locations in prepreg manufacturing and headquarters' facilities. As of December 31, 2010, the Company also employed 75 temporary employees. Aldila considers its employee relations to be good.

Seasonality

Because the Company's customers have historically built inventory in anticipation of purchases by golfers in the spring and summer, the principal selling season for golf equipment, the Company's operating results have been affected by seasonal demand for golf clubs, which has generally resulted in highest sales occurring in the first and second quarter. The timing of customers' new product introductions has frequently mitigated the impact of seasonality in recent years.

Backlog

As of December 31, 2010, the Company had a sales backlog of approximately $5.5 million compared to approximately $10.6 million as of December 31, 2009. Historically, the majority of the dollar volume of the Company's backlog at the end of a quarter has been shipped during the following quarter. Orders can typically be cancelled without penalty up to 30 days prior to shipment. Historically, the Company's backlog generally has been highest at the beginning of the first and second quarters, due in large part to seasonal factors. Due to the timing and receipt of customer orders, backlog is not necessarily indicative of future operating results.

Risk Factors

Dependence on Discretionary Consumer Spending

Sales of golf equipment have historically been dependent on discretionary spending by consumers, which may be adversely affected by general economic conditions. The country is still reeling from one of the worst recession in years. Consumers have drastically reduced their spending over the past several years. With this recent and significant deterioration of economic conditions in the U.S. and elsewhere, there has been considerable pressure on consumer demand, and the resulting impact on consumer spending has had and may continue to have a material adverse effect on the demand for the Company's products as well as its financial condition and results of operations. Consumer demand and the condition of the golf retail industry may also be impacted by other external factors such as war, terrorism, geopolitical uncertainties, public health issues, natural disasters and other business interruptions. The impact of these external factors is difficult to predict, and one or more of the factors could adversely impact the Company's business. The golf industry has historically been a recession proof industry, in which changes in equipment sales would range between plus or minus one to two percent. A continued decrease in consumer demand and spending on golf equipment or, in particular, a decrease in demand for golf clubs with graphite shafts could have an adverse effect on the Company's business and operating results and its ability to service its credit facility.

Customer Concentration

The Company's sales have been, and very likely will continue to be, concentrated among a small number of customers. In 2010, sales to the Company's top five customers represented approximately 58% of net sales. Aldila's principal customers have historically varied depending largely on the prevailing popularity of the various clubs that contain Aldila shafts. In 2010, Ping accounted for 22% of net sales, Acushnet Company accounted for 8% of net sales and Callaway Golf accounted for 12% of net sales. The Company cannot predict the impact that general market trends in the golf industry, including the fluctuation in popularity of specific clubs manufactured by customers, will have on its future business or operating results.

While the Company has had long-established relationships with most of its customers, it is not the exclusive supplier of graphite shafts to most of them, and consistent with the industry practice, generally does not have long-term contracts with its customers. We believe that Ping, Acushnet Company and Callaway Golf, who collectively represent approximately 41% of the Company's net sales in 2010, each purchased from at least two other graphite shaft suppliers. In the event Ping, Acushnet Company and Callaway Golf, or any other significant customer, increases purchases from its other suppliers or adds additional suppliers, the Company could be adversely affected. Although the Company believes that its relationships with its customers are good, the loss of a significant customer, or a substantial decrease in sales to a significant customer, could have a material adverse effect on the Company's business and operating results. In addition, sales by the Company's major customers are likely to vary dramatically from time to time due to fluctuating consumer demand for golf equipment generally and for their specific products.

Competition

Aldila operates in a highly competitive environment for golf equipment sales. The Company believes that it competes principally on the basis of its ability to provide a broad range of high quality, performance graphite shafts, its ability to deliver customized products in large quantities and on a timely basis, the acceptance of graphite shafts in general, and Aldila branded shafts, in particular, by professionals and other golfers whose preferences are to some extent subjective, and finally, price.

Aldila competes against both domestic and foreign shaft manufacturers. Some of the Company's current and potential competitors may have greater resources than Aldila. The Company also faces potential competition from those golf club manufacturers that currently purchase golf shaft components from outside suppliers but that may have, develop or acquire, the ability to manufacture shafts internally.

As the Company further enters into the manufacture and sale of prepreg products, it competes with other producers of prepregs, many of whom have substantially greater research and development, managerial and financial resources than the Company and represent significant competition for the Company.

Shaft Manufacturing by Club Companies and One-Stop Shops

Another factor that could have a negative impact in the future on the Company's sales to golf club manufacturers would be a decision by one of its customers to manufacture all or a portion of their graphite shaft requirements, or to have an increased amount of their requirements filled from one-stop shops (where main components, shaft or head, of the golf club could be produced or purchased and assembled). While the Company has not, to date, experienced any material decline in its sales for these reasons, should any of the Company's major customers decide to meet any significant portion of their shaft needs either internally or through one-stop shops, it could have a material adverse impact on the Company and its financial results.

New Product Introduction

The Company believes that the introduction of new, innovative golf shafts using graphite or other composite materials will be critical to its future success. While the Company emphasizes research and development activities in connection with carbon fiber and other composite material technology, there can be no assurance that the Company will continue to develop competitive products or that the Company will be able to develop or utilize new composite material technology on a timely or competitive basis or otherwise respond to emerging market trends.

Although the Company believes that it has generally achieved success in the introduction of its customized graphite golf shafts, specifically, the Aldila NV® line of golf shafts, no assurance can be given that the Company will be able to continue to design and manufacture products that meet with market acceptance, either on the part of club manufacturers or golfers. The design of new graphite golf shafts is also influenced by rules and interpretations of the United States Golf Association ("USGA"). There can be no assurance that any new products will receive USGA approval or that existing USGA standards will not be altered in ways that adversely affect the sales of the Company's products.

Reliance on Offshore Manufacturing Facilities

The Company operates manufacturing facilities in Zhuhai, People's Republic of China and Ho Chi Minh City, Vietnam. The Company pays certain expenses of these facilities in Chinese renminbis and Vietnam dong, respectively, which are subject to fluctuations in currency value and exchange rates. The Company operates in the People's Republic of China in a special economic zone, which affords special advantages to companies with regards to income taxes. The operation in Vietnam also enjoys advantages in regards to income taxes. There can be no assurance that the governments of the People's Republic of China or Vietnam will continue the programs currently in place or that the Company will continue to be able to benefit from these programs. The loss of these benefits could have an adverse effect on the Company's business. The Company is also subject to other customary risks of doing business outside the United States, including political instability, other import/export regulations and cultural differences.

Raw Material Cost/Availability

The Company's gross profit margin, in part, is dependent on the price paid for carbon fiber purchased from vendors. Historically, the carbon fiber market has been cyclical and experienced periods of excess capacity and low prices followed by periods of little excess capacity and high prices. In the past, when there was excess capacity, carbon fiber suppliers sold carbon fiber at reduced prices, which had the effect of increasing competition, as carbon fiber was less expensive and material was available in the graphite shaft and composite materials businesses. During tight supply times, the Company may have difficulty in obtaining certain types of carbon fibers, which are used in the Company's graphite shafts and composite prepreg materials. Management cannot predict the timing or extent of future price changes for carbon fiber, but higher prices may negatively impact the Company if the Company is not able to pass along these increases to its customers.

The Company has relationships with vendors for its carbon fiber needs through 2011 and beyond. In the world carbon fiber market, there are a limited amount of carbon fiber manufacturers. The Company currently purchases carbon fiber from most of these carbon fiber manufacturers.

The Company is dependent on its internal production of graphite prepreg to support its shaft manufacturing operations and composite materials business. If the Company's prepreg production is interrupted for any reason and the Company is unable to secure an alternative supply of prepreg, it could have a material impact to the Company's business. The exposure to the Company resulting from its reliance on its own internal production of the raw materials for its golf shaft business is enhanced because the Company currently operates only one prepreg facility. As noted above, the carbon fiber and composite prepreg industries have encountered various capacity issues in the past, and either situation can have an adverse effect on the Company's business.

Utilization of Certain Hazardous Materials

In the ordinary course of its manufacturing processes, the Company uses hazardous substances and generates hazardous waste. The Company has not, to date, incurred any material liabilities under environmental laws and regulations and believes that it is in substantial compliance with applicable laws and regulations. Nevertheless, no assurance can be given that the Company will not encounter environmental problems or incur environmental liabilities in the future, which could adversely affect its business.

Reliance on Key Personnel

The success of the Company is dependent upon its senior management team, as well as its ability to attract and retain qualified personnel. There is competition for qualified personnel in the golf shaft industry as well as the carbon fiber business. Further, in the past, we have used equity incentive programs as part of our overall employee compensation arrangements to both attract and retain qualified personnel. A decline in our stock price negatively impacts the value of these equity incentive and related compensation programs as retention and recruiting tools. We may need to create new or additional equity incentive programs and/or compensation packages to remain competitive, which could be dilutive to our existing stockholders and/or adversely affect our results of operations. There is no assurance that the Company will be able to retain its existing senior management personnel or to attract additional qualified personnel.

Item IX The nature of products or services offered.

Item VIII is incorporated by reference for the nature of products or services offered.

Item X The nature and extent of the issuer's facilities.

The Company's principal executive offices are located in Poway, California (in the San Diego metropolitan area). The Company's golf shafts are manufactured at two separate facilities; one in the Zhuhai economic development zone of the People's Republic of China and one that is in Ho Chi Minh City, Vietnam. The Company leases a 73,000 square foot facility in Poway, California for graphite prepreg production. The Company also leases an additional 52,000 square foot facility in Poway, California for the Company's executive offices and warehouse. The China facility is also leased and comprises approximately 88,000 square feet. The Vietnam facility was built by the Company and operates under a 54 year land lease. The land is approximately 10,000 square meters and the building is comprised of approximately 64,000 square feet. The Company also may lease warehousing space when needed.

Part D Management Structure and Financial Information

Item XI The name of the chief executive officer, members of the board of directors, as well as control person.

Name	Age	Position	Compensation(1)	Common Shares Beneficially Owned Amount (2)	%(3)
Peter R. Mathewson	60	Chief Executive Officer and Chairman of the Board	$340,280	105,284	2.0
Robert J. Cierzan	64	Sr. Vice President – Composite Materials	$229,189	50,383	0.9
Michael J. Rossi	57	Vice President – Sales and Marketing	$242,051	10,934	0.2
Scott M. Bier	45	Vice President, Chief Financial Officer, Secretary and Treasurer	$204,800	15,970	0.3
Thomas A. Brand	77	Outside Director	$30,189	19,838	0.4

(1) Represents wages and bonus paid in 2010.
(2) Beneficial shares outstanding include common stock owned, exercisable options and unvested restricted stock as of December 31, 2010.
(3) Percentage calculated based upon the beneficial owned divided by common stock outstanding as of December 31, 2010.

PETER R. MATHEWSON has been a director of the Company since January 1997 and has been President, Chief Executive Officer and Chairman of the Board of the Company since January 2000. From 1990 until December 31, 1999, he served as Vice President of the Company (or its predecessors). Since January 1997, Mr. Mathewson has also served as President and Chief Operating Officer of Aldila Golf Corp., the Company's operating subsidiary that conducts its core golf operations. Mr. Mathewson has been with the Company (or its predecessors) since September 1973 and has held various positions, including: plant manager, production manager, shipping and receiving supervisor, and purchasing agent. He was selected to serve as a director of the Company due to his great familiarity with the Company, including its strategies, operations, supply sources and markets, his acute business judgment, his extensive knowledge of the golf club and composite industries, and his position with the Company.

ROBERT J. CIERZAN was Secretary from January 1991 to August 2010 and Sr. Vice President—Composite Materials since May 15, 2008. He was Treasurer of Aldila (or its predecessors) from January 1991 through May 15, 2008, and Vice President—Finance from March 1989 through May 15, 2008. From September 1988 to February 1989, Mr. Cierzan held the position of Executive Vice President—Finance at Illinois Coil Spring Company, a diversified manufacturer of springs, automotive push-pull controls and rubber products.

MICHAEL J. ROSSI has been the Vice President—Sales and Marketing of Aldila Golf Corp., the Company's operating subsidiary that conducts its core golf operations, since March 24, 1997. Prior to that, from August 1994 to March 1997, Mr. Rossi was the Vice President and General Manager of Fujikura Composite America, which manufactures graphite golf shafts and is a wholly owned subsidiary of Fujikura Rubber Limited, a Japanese publicly held company. From November 1989 to August 1994, he was Vice President—Sales and Marketing for True Temper Sports, a division of the Black & Decker Corporation, which manufactures steel golf shafts.

SCOTT M. BIER has been Vice President, Finance/Chief Financial Officer, Treasurer and Principal Financial Officer and Principal Accounting Officer since May 15, 2008. Mr. Bier became Secretary of the Company effective August 20, 2010. Mr. Bier joined the Company in 1998 as its Assistant Controller. He was promoted to Controller in January 2002, and promoted to Vice President, Controller in December 2005. Before joining the Company he worked as a Certified Public Accountant at the national accounting firm Deloitte.

THOMAS A. BRAND has been a director of the Company since November 1997. Since January 1994, Mr. Brand has been a consultant to the composite materials industry. From 2000 to 2006, he was a director of Reinhold Industries, Inc., a manufacturer of advanced custom composite components and sheet molding compounds for a variety of applications in the United States and Europe. From 1983 to 1992, he was Senior Vice President/General Manager of Fiberite Advanced Materials, a business unit of ICI-PLC. From 1964 to 1983, Mr. Brand served as Vice President/General Manager, Fiberite West Coast Corp., which is a division of Fiberite Corporation. Age: 77.

Officer Legal/Disciplinary History

None

Disclosure of Family Relationships

None

Disclosure of Related Party Transactions

None

Disclosures of Conflicts of Interest

None

Item XII Financial information for the issuer's most recent fiscal period.

See audited consolidated financial statements for the period ended December 31, 2010, which are separately posted on the OTCQX website for the Company which can be accessed at http://www.otcqx.com/otcqx/home and are incorporated by reference in this Annual Report. The audited consolidated financial statements include the following reports: (1) balance sheet; (2) statement of operations; (3) statement of cash flows; (4) statement of stockholders' equity; (5) notes to the financial statements; and (6) audit letter.

Item XIII Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.

See audited consolidated financial statements for the Company's two preceding fiscal periods which are separately posted on the OTCQX website for the Company which can be accessed at http://www.otcqx.com/otcqx/home and are incorporated by reference in this Annual Report. The audited consolidated financial statements include the following reports: (1) balance sheet; (2) statement of operations; (3) statement of cash flows; (4) statement of stockholders' equity; (5) notes to the financial statements; and (6) audit letter.

Older financial statements can be accessed in the SEC EDGAR filings on the SEC website at http://www.sec.gov.

Item XIV Beneficial Owners.

The shareholders below are believed by the Company to beneficially own 5% or more of the Company's outstanding common shares as reported to the Company. The % of class is calculated by dividing the beneficial ownership by shares outstanding as of December 31, 2010.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	% of Class
Common Shares	Lloyd I. Miller, 4550 Gordon Drive, Naples FL 34102	1,379,806 (1)	26%
Common Shares	Peter H. Kamin, One Avery Street, 17B, Boston MA 02111	559,602 (1)	10%
Common Shares	Dimensional Fund Advisors LP, Palisades West Building One, 6300 Bee Cave Road, Austin TX 78746	390,417 (2)	7%

(1) Holdings as of February 28, 2011 as reported to the Company.
(2) From Schedule 13G filing dated February 11, 2011.

Item XV The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to operations, business development and disclosure:

Investment Banker and Designated Advisor for Disclosure ("DAD"):
B. Riley and Co., LLC
c/o Salomon Kamalodine
11100 Santa Monica Blvd., Suite 800
Los Angeles, CA 90025
310-966-1444
skamalodine@brileyco.com

Securities Counsel:
Seltzer Caplan McMahon Vitek
c/o Andrew Brooks
2100 Symphony Towers
750 B Street
San Diego, CA 92101
619-685-3003
brooks@scmv.com

Auditors:
Mayer Hoffman McCann P.C. ("Mayer Hoffman")
c/o Mike Lichtenberger
10616 Scripps Summit Court
San Diego, CA 92131
858-795-2000
MLichtenberger@CBIZ.com

Mayer Hoffman conducted an audit of the consolidated financial statements of the Company in accordance with generally accepted auditing standards.

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Accordingly, the fairness of representations made throughout the financial statements is an implicit and integral part of management's responsibility.

Item XVI Management's Discussion and Analysis or Plan of Operation.

Results of Operations

Net Sales

	2010	2009	Chg	% Chg
Composite Products	$43,574	$42,618	$956	2%
Composite Materials	11,136	7,156	3,980	56%
Total Net Sales	$54,710	$49,774	$4,936	10%

Composite Products—

Composite Products net sales increased by $956,000 for 2010 as compared to 2009. Although, the Company realized a year over year increase in sales of its Composite Products, it saw a slow-down in the fourth quarter with sales in that segment down 24% from the fourth quarter of 2009. The average selling price of golf shafts sold decreased by 6% and overall units increased by 10% for the year ended December 31, 2010 as compared to the comparable period in 2009.

Golf equipment sales industry has been in a multi-year slide since 2007. This decline is approximately 18% below the sales number in 2007. The decline is even larger in the key category drivers, with drivers down 20% in units sold versus 2006. It appears that golf equipment sales have troughed; the return to a more normalized sales level could be slow in coming and require several years to climb back to a healthy level. Although, the golf equipment industry has continued to suffer over the past few years, the Company believes that it was able to maintain and even increase its market share in some areas, which led to a year over year increase in sales.

Composite Materials—

Composite Materials net sales increased by $4 million for 2010 as compared to 2009 and represented approximately 20% of the Company's consolidated net revenues for 2010. The majority of our Composite Materials business is to customers in the recreational products industry. Sales of materials in that industry represented 82% in 2010 versus 83% in 2009. The Company has added capacity in this segment over the past several years to support the Composite Products segment and for outside sales of Composite Materials. The Company continues to attempt to diversify its customer base in this segment. As noted above, the Company's sales are highly concentrated in the recreational products industry.

Gross Profit

	2010	2009	Chg	% Chg
Composite Products	$8,963	$8,678	$285	3%
Composite Materials	3,493	2,002	1,491	74%
Total Gross Profit	$12,456	$10,680	$1,776	17%

Composite Products—

Composite Products gross profit increased by approximately $285,000, or 3%, in 2010 as compared to 2009. The increase in Composite Products gross profit was attributed to an increase in sales volume of product shipped, which helped the company realize lower per unit manufacturing costs. Composite Products gross margin increased to 21% for 2010 as compared to 20% for 2009. The decrease in average selling prices of shafts sold continues to put pressure on the Company's gross margins. The Company's gross profit was negatively affected by additional inventory reserves of $432,000 in 2010 as compared to $568,000 in 2009.

Composite Materials—

The Composite Materials gross profit increased by approximately $1.5 million, or 74%, in 2010 as compared to 2009. The increase was mainly attributed to increased sales and a better mix of product being sold as well as higher production volume in 2010 as compared to 2009. Composite Materials gross margin increased to 31% in 2010 as compared to 28% in 2009.

Operating Income

	2010	2009	Chg	% Chg
Gross profit	$12,456	$10,680	$1,776	17%
Selling, General & Administrative ("SG&A) Expense				
Composite Products	9,462	9,584	(122)	(1)%
Composite Materials	1,435	973	462	47%
Total SG&A	10,897	10,557	340	3%
Operating Income				
Composite Products	(499)	(906)	407	45%
Composite Materials	2,058	1,029	1,029	100%
Operating Income	$1,559	$123	$1,436	1,167%
Operating Margin	3%	0%	3%	

Operating income increased by approximately $1.4 million, or 1,167%, in 2010 as compared to 2009. The increase was attributed to an increase in gross profit of $1.8 million, which was partially offset by an increase in SG&A of approximately $340,000. SG&A decreased as a percentage of revenues to 20% in 2010 as compared to 21% for 2009. The increase in SG&A was primarily attributed to higher incentive bonus expenses and increased advertising and promotional expenses in support of the Company's branded shafts. The Company's stock based compensation expense was $191,000 in 2010 versus $399,000 in 2009.

Other (Expense) Income

	2010	2009	Chg	% Chg
Operating income	$1,559	$123	$1,436	1,167%
Interest income	8	17	(9)	(53)%
Interest expense	(34)	(191)	157	82%
Other, net	(9)	(71)	62	87%
Total other expense	(35)	(245)	210	86%
Income (loss) before income taxes	$1,524	$(122)	$1,646	1,349%

Other expense decreased by approximately $210,000 for 2010, or 86%, as compared to 2009. The majority of the decrease was attributed to less interest expense in 2010 versus 2009.

Income (loss) before taxes

	2010	2009	Chg	% Chg
Income (loss) before income taxes.........	$1,524	$(122)	$1,646	1,349%
(Benefit) provision for income taxes	(741)	121	(862)	(712)%
Net income (loss)	$2,265	$(243)	$2,508	1,032%
Effective tax rate....................................	(49)%	(99)%	(50)%	
Profit margin	4%	(0)%	4%	

The Company recorded a benefit for income taxes in the amount of $741,000 in 2010 as compared to a provision for income taxes of $121,000 for 2009. Included in the provision for income taxes in 2010 is a benefit for changes to unrecognized tax positions from a prior period and a lapse of statute of limitations on positions taken. The uncertain tax positions were released as the taxing authority has completed its examination process and the Company was able to release the reserve on certain tax positions taken in previous years. Included in the provision for income taxes in 2009 was an income tax charge of $744,000 associated with the closure of the Company's Mexico facility during the year. The income tax charge is attributed to the repatriation of earnings from Mexico that the Company had not previously paid income taxes on, which was slightly offset by the foreign tax credit received on income taxes paid in Mexico. The Company also records interest expense for its unrecognized tax benefits in the provision for income taxes. The Company had a net decrease in its accrual for unrecognized tax benefits of $749,000 for the periods ended December 31, 2010 as compared to a net increase of $216,000 in 2009. The Company is under a general audit by the Franchise Tax Board ("FTB") for the years 2005 and 2006 and is in the appeal process with the FTB in regards to its 2001-2004 research and development credit audit.

Liquidity and Capital Resources

Cash and cash equivalents ("cash") decreased by $3.7 million for 2010 as compared to 2009. The decrease in cash was attributed to cash used for investing activities of $3.5 million, cash used for financing activities of $4.1 million, which was partially offset by cash provided by operating activities of $3.9 million.

The Company used $1.1 million for capital expenditures during 2010 as compared to $831,000 during 2009. The majority of the capital expenditures in 2010 were attributed to investments in the Composite Materials segment. The Company spent $296,000 in support of Composite Products and $884,000 for Composite Materials. Management anticipates that capital expenditures will be between $1.0 and $1.5 million for 2011. The Company completed the acquisition of Victory Archery, from MSV during the fourth quarter of 2010. The cash used for the acquisition was $2.3 million.

The Company declared and paid a special $0.25 cash dividend to shareholders during 2010, totaling $1.3 million in payments to shareholders. The Company's dividend policy is reviewed quarterly during the Company's Board of Directors' meetings and subject to Board approval.

The Company terminated its credit facility with Key Bank in 2010. In doing so, the Company repaid the $3.5 million in debt still owed on the facility. Subsequent to that, the Company established a $3.0 million dollar line of credit with Wells Fargo Bank. The Company borrowed $750,000 during the fourth quarter of 2010 against Wells Fargo facility.

The Company believes that our cash available from future operating and financing activities will be adequate to meet our anticipated requirements for working capital, capital expenditures, debt service and the payment of any future dividends, if granted by the Company's Board of Directors in the next twelve months. There can be no assurance, however, that our business will generate future positive operating cash flows. If we are unable to generate sufficient cash flow from operations, we may be required to sell assets, reduce capital expenditures or obtain additional financing and there is no assurance we will be able to do so on a timely basis or on satisfactory terms.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of December 31, 2010.

Part E Issuance History

Item XVII List of securities offerings and shares issued for services in the past two years.

Common Shares Issued: Fiscal Years 2009 and 2010:

Transaction	Date	Amount
Employee Restricted Stock Vest	August 9, 2009	8,828
Employee Restricted Stock Vest	August 25, 2009	9,430
Employee Restricted Stock Vest	August 27, 2009	9,668
Employee Restricted Stock Vest	September 28, 2009	47
Jon Poesch (Employee Incentive Stock Option Exercise)	May 11, 2010	1,500
Peter Mathewson (Employee Incentive Stock Option Exercise)	July 15, 2010	9,000
Employee Restricted Stock Vest	August 25, 2010	23,437
Employee Restricted Stock Vest	August 27, 2010	9,405
Employee Restricted Stock Vest	September 28, 2010	46
Victory Archery Acquisition	December 30, 2010	104,319

Part F Exhibits

Item XVIII Material Contracts.

Material contracts are separately posted on the OTCQX website for the Company which can be accessed at http://www.otcqx.com/otcqx/home or can be found in previous Forms 10-K and other SEC EDGAR filings, which can be accessed on the SEC website at http://www.sec.gov.

Item XIX Articles of Incorporation and Bylaws.

The articles of Incorporation and Bylaws of the Company can be found in previous SEC EDGAR filings, which can be accessed on the SEC website at http://www.sec.gov.

Item XX Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

There were no purchases during the periods covered by this report.

Item XXI Issuer's Certifications.

Certification of Chief Executive Officer -

I, Peter R. Mathewson, Chief Executive Officer, certify that:

1. I have reviewed this annual disclosure statement of the Company;

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

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

March 28, 2011

/s/ Peter R. Mathewson

Peter R. Mathewson
Chief Executive Officer

Certification of Chief Financial Officer -

I, Scott M. Bier, Chief Financial Officer, certify that:

1. I have reviewed this annual disclosure statement of the Company;

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

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

March 28, 2011

/s/ Scott M. Bier

Scott M. Bier
Chief Financial Officer

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report that are not historical facts constitute forward-looking statements. These may be identified by words such as “estimates,” “anticipates,” “plans,” “expects,” “believes,” “should,” and similar expressions, and by the context in which they are used. These forward-looking statements are necessarily based on certain assumptions and are subject to significant risks and uncertainties. These forward-looking statements are based on management’s expectations as of the date hereof, and the Company does not undertake any responsibility to update any of these statements in the future. Actual future performance and results could differ from that contained in or suggested by these forward-looking statements as a result of factors set forth in this Annual Disclosures report.

FINANCIAL REPORT

FINANCIAL REPORT

ALDILA, INC. & SUBSIDIARIES

FINANCIAL REPORT FOR THE YEAR ENDED

DECEMBER 31, 2010

Independent Auditor's Report

The Board of Directors
Aldila, Inc.

We have audited the accompanying consolidated balance sheets of **Aldila, Inc.** as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our 2010 audit in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and our 2009 audit in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits, included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Aldila, Inc.** as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Mayer Hoffman McCann P.C.

San Diego, California
March 28, 2011

ALDILA, INC. AND SUBSIDIARIES

Table of Contents

Consolidated Financial Statements

ALDILA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$3,400	$7,104
Accounts receivable, net	6,157	7,535
Inventories	10,779	9,280
Deferred tax assets	646	562
Prepaid expenses and other current assets	604	679
Total current assets	21,586	25,160
PROPERTY, PLANT AND EQUIPMENT, NET	11,748	11,649
DEFERRED TAXES	1,737	1,528
OTHER NON-CURRENT ASSETS	107	154
INTANGIBLE ASSETS	1,311	81
GOODWILL	248	—
TOTAL ASSETS	$36,737	$38,572
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$3,839	$4,141
Income taxes payable	62	158
Accrued expenses	2,383	2,438
Short term debt	750	1,300
Other current liabilities	262	509
Total current liabilities	7,296	8,546
LONG-TERM LIABILITIES:		
Deferred rent	109	111
Long term debt	—	2,167
Other long-term liabilities	1,470	1,332
Total liabilities	8,875	12,156
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value; authorized 5,000,000 shares; no shares issued	—	—
Common stock, $.01 par value; authorized 30,000,000 shares; issued and outstanding 5,349,863 shares as of December 31, 2010 and 5,202,156 shares as of December 31, 2009	53	52
Additional paid-in capital	45,159	44,618
Accumulated deficit	(17,350)	(18,254)
Total stockholders' equity	27,862	26,416
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$36,737	$38,572

See Notes to the Consolidated Financial Statements

ALDILA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year ended December 31, 2010	Year ended December 31, 2009
NET SALES	$54,710	$49,774
COST OF SALES	42,254	39,094
Gross profit	12,456	10,680
SELLING, GENERAL AND ADMINISTRATIVE	10,897	10,291
PLANT CONSOLIDATION	—	266
Operating income	1,559	123
OTHER INCOME (EXPENSE):		
Interest income	8	17
Interest expense	(34)	(191)
Other, net	(9)	(71)
INCOME (LOSS) BEFORE INCOME TAXES	1,524	(122)
(BENEFIT) PROVISION FOR INCOME TAXES	(741)	121
NET INCOME (LOSS)	$2,265	$(243)
NET INCOME (LOSS) PER COMMON SHARE-BASIC	$0.43	$(0.05)
NET INCOME (LOSS) PER COMMON SHARE, ASSUMING DILUTION	$0.43	$(0.05)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	5,219	5,184
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES	5,251	5,184

See notes to consolidated financial statements.

ALDILA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-in	Retained Earnings (Accumulated	
	Shares	Amount	Capital	Deficit)	Total
Balance at January 1, 2009	5,174	$52	$44,121	$(17,913)	$26,260
Stock-based compensation	28	—	497	(98)	399
Net loss	—	—	—	(243)	(243)
Balance at December 31, 2009	5,202	52	44,618	(18,254)	26,416
Stock-based compensation	33	—	241	(50)	191
Common stock issued upon stock option exercises	11	—	15	—	15
Issuance of common stock for Victory Archery Acquisition	104	1	424	—	425
Tax expense associated with cancellation of stock options	—	—	(139)	—	(139)
Dividend payments	—	—	—	(1,311)	(1,311)
Net income	—	—	—	2,265	2,265
Balance at December 31, 2010	5,350	$53	$45,159	$(17,350)	$27,862

See notes to consolidated financial statements.

ALDILA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year ended December 31,	
	2010	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$2,265	$(243)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,738	1,771
Stock-based compensation	191	399
Loss on disposal of fixed assets	18	128
Changes in assets and liabilities, net of effects from purchase of Victory Archery:		
Accounts receivable, net	1,412	(1,128)
Inventories	(326)	2,303
Deferred tax assets	(293)	(94)
Prepaid expenses and other assets	234	(202)
Accounts payable	(302)	721
Accrued expenses	(178)	131
Income taxes payable	(96)	2,430
Other current liabilities	(366)	392
Deferred rent and other long-term liabilities	(385)	(218)
Net cash provided by operating activities	3,912	6,390
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,180)	(831)
Proceeds from sales of property, plant and equipment	16	88
Acquisition of Victory Archery	(2,300)	—
Net cash used for investing activities	(3,464)	(743)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments for term loan	(3,167)	(1,000)
Borrowings against line of credit	750	5,100
Payments for line of credit	(300)	(8,800)
Proceeds from issuance of common stock	15	—
Tax expense associated with cancellation of stock options	(139)	—
Dividend payments	(1,311)	—
Net cash used for financing activities	(4,152)	(4,700)
NET (DECREASE) INCREASE CASH AND CASH EQUIVALENTS	(3,704)	947
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,104	6,157
CASH AND CASH EQUIVALENTS, END OF YEAR	$3,400	$7,104

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:		
Income taxes	$573	$85
Interest	$44	$163
Non-cash property additions	$123	$—
Acquisition of Victory Archery		
Fair Value of Assets Acquired:		
Current assets	$1,871	$—
Long-term assets	$1,494	$—
Less: Issuance of common stock	$(425)	$—
Less: Liability for contingent consideration	$(640)	$—
Net cash paid for acquisition	$2,300	$—

See notes to consolidated financial statements.

ALDILA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company—Aldila, Inc. (a Delaware Corporation) (the "Company") designs, manufactures and markets graphite golf club shafts for sale principally in the United States. In addition, the Company sells composite prepregs and other related composite materials.

Principles of Consolidation— The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries, Aldila Materials Technology Corporation ("AMTC"), Aldila Golf Corp. ("Aldila Golf"), and Aldila Golf's subsidiaries, Aldila Carbon Fiber Products (Zhuhai) Company Ltd. and Aldila Composite Products Company Ltd. All intercompany transactions and balances have been eliminated in consolidation.

Use of 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, liabilities, revenues and expenses, as well as the disclosure of contingencies affected by such estimates including but not limited to: returns for breakage, allowance for doubtful accounts, inventory obsolescence and provision for income taxes, and assumptions. Actual results could differ from these estimates.

Revenue Recognition—The Company recognizes revenues from product sales upon transfer of title to the customer at the time of shipment. The Company offers discounts to certain customers based on early payment. Sales to these customers are recognized on a gross basis, and sales discounts are recorded at the time the discount is taken by the customer. Recording revenue net of discounts would not have a significant effect on net sales or on the net realizable value of accounts receivable.

Sales discounts for the years ended December 31, 2010 and 2009 were $173,000 and $168,000, respectively, representing less than 1% of gross revenues. The Company also offers certain of our customers the right to return shafts for breakage within a limited time after delivery. We track such shaft breakage returns, and we record a provision for the estimated amount of such future returns, based on historical experience and any notification we receive of pending returns at the time sales are made. The amount recorded as of December 31, 2010 and 2009 was $138,000.

Cash Equivalents and Marketable Securities—The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. All short-term, highly liquid investments having original maturities greater than ninety days are considered to be marketable securities. Management determines the appropriate classification of marketable debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Company's cash was not invested in any such highly liquid investments as of December 31, 2010.

Fair Value of Financial Instruments—Certain financial instruments are carried at cost on the consolidated balance sheets, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other short-term liabilities. The Company believes that the carrying value of its debt approximates fair value.

Accounts Receivable—The Company sells graphite golf club shafts primarily to golf club manufacturers and distributors on credit terms. The Company also sells composite materials to manufacturers of other composite based products on credit terms. The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a monthly review of the current status of outstanding customer balances. Historically, credit losses have been minimal in relation to the credit extended.

Inventories—Inventories are stated at the lower of first-in, first-out (FIFO) cost or market value. The inventory balance, which includes material, labor and manufacturing overhead costs, is recorded net of an estimated allowance for obsolete or unmarketable inventory. The estimated allowance for obsolete or unmarketable inventory is based upon management's understanding of market conditions and forecasts of future product demand, all of which are subject to change. If actual charges for obsolescence or unmarketable inventory significantly exceed the estimated allowance, the Company's operating results would be significantly adversely affected.

Property, Plant and Equipment—Property and equipment are stated at cost. Repairs and maintenance are charged to expense as incurred. The Company depreciates its property and equipment using the straight-line method over the estimated useful lives of the assets, as follows:

	Years
Machinery and equipment	5 - 10
Office furniture and equipment	3 - 10

Leasehold improvements are amortized over the shorter of the asset life or the remaining term of the related lease.

Evaluation of Long-lived Assets—The Company's policy is to assess potential impairments to its long-lived assets at least annually or when there is evidence that events or changes in circumstances have made recovery of the assets carrying value unlikely and the carrying amount of the asset exceeds the estimated undiscounted future cash flows. If such evaluation were to indicate a material impairment of these long-lived assets, such impairment would be recognized by a write down of the applicable asset to its estimated fair value.

Warranty Reserve—The Company provides a warranty to its customers for shaft breakage in the normal course of business. The Company accrues for the estimated warranty based on historical experience at time of sale. The estimated warranty is calculated based upon a rolling four-year ratio of breakage returns to sales applied to current year sales. (See Note 6).

Advertising—The Company advertises primarily through print media. The Company's policy is to expense advertising costs, including production costs, as incurred. Advertising expenses for 2010 and 2009 were $1.3 million and $899,000, respectively.

Shipping and Handling Costs—Shipping and handling costs are classified as cost of sales.

Research & Development ("R&D")—The Company performs internal research and development efforts. Research and development expenses were approximately $2.8 million and $2.7 million for 2010 and 2009, respectively; such expenses are recorded in cost of sales.

Foreign Currency Translation—The Company's foreign subsidiaries are a direct and integral component or extension of the parent company's operation. The daily operations of foreign subsidiaries are dependent on the economic environment of the parent's currency. In addition, the changes in the foreign subsidiary's individual assets and liabilities directly affect the cash flow of the parent company. The functional currency of foreign subsidiaries is the US dollar. During the years ended December 31, 2010 and 2009, net foreign currency translation gains and losses included in the Company's Statements of Operations were insignificant.

Earnings Per Share ("EPS")—Earnings per share—basic is calculated based upon the weighted average number of shares outstanding during the year, while diluted also gives effect to all potential dilutive common shares outstanding during each year such as options, restricted stock, warrants and other contingently issuable shares. Options to purchase 73,724 and 167,421 shares of common stock as of December 31, 2010 and 2009, respectively, at prices ranging from $1.12 to $27.01 per share, were not included in the computation of diluted EPS because the effect of such options would be anti-dilutive. Such options expire at various dates through 2018.

	2010	2009
Weighted Average Number of Common Shares Oustanding – Basic	5,219,052	5,184,322
Common Stock Equivalents	32,185	-
Weighted Average Number of Common Shares Outstanding – Fully Diluted	5,251,237	5,184,322

Income Taxes—Income taxes are provided utilizing the asset and liability method. The asset and liability method requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Valuation allowances are established when necessary to reduce deferred income tax assets to amounts more likely than not to be realized.

Accounting for Share Based Compensation—At December 31, 2010, the Company has two stock-based compensation plans, which are described more fully in Note 9.

Concentration Risk—The Company maintains some of its cash in bank deposit accounts, which may be uninsured or exceed the federally insured limits. No losses have been experienced related to such accounts. The Company believes it places its cash with quality financial institutions and is not exposed to any significant concentration of credit risk on cash.

Supplier Concentration Risk—The Company has relationships with vendors for its carbon fiber needs through 2011 and beyond. In the world carbon fiber market, there are a limited amount of carbon fiber manufacturers. The Company currently purchases carbon fiber from most of these carbon fiber manufacturers. Depending on market conditions prevailing at the time, the Company may face difficulties in obtaining adequate supplies of carbon fiber from vendors other than those that the Company currently utilizes.

Reclassifications—Certain reclassifications have been made to prior years' disclosures to conform to current year classifications.

2. ACQUISITION

The Company, acting through its subsidiary Aldila Golf Corp., acquired certain assets of Victory Archery ("Victory"), a division of Miramar Strategic Ventures, LLC ("MSV"), on December 30, 2010. Included in the purchase were specified equipment, accounts receivable and inventory, as well as other tangible and intangible assets related to the archery line of business. The Company assumed four contracts relating to sales and marketing activities and will be responsible under those agreements only for post-closing obligations. The Company assumed no other liabilities in connection with the purchase. The Company paid $2.3 million dollars and issued 104,319 shares of unregistered Aldila, Inc. common stock to MSV in payment for the assets. The shares are restricted and cannot be traded until January 2, 2012.

The Company will also pay MSV an earn-out payment of 5.0% of any increase in quarterly gross sales (less returns) of archery products, with an annual reconciliation payment to bring the total earn-out payment to 10.0% of the increase above the gross sales (less returns) of archery products compared to the actual gross sales (less returns) in 2010. The earn-out obligation ends for sales after December 31, 2015.

Management engaged a third-party valuation firm to assist in the determination of the fair value and expected life of the identifiable intangible assets, the fair value of the management earn-out and the common stock issued in the transaction. In determining the fair value of the intangible assets the Company considered, among other factors, the best use of acquired assets, analyses of historical financial performance and estimates of future performance of Victory's products. The fair values of the identified intangible assets related to the existing technology, patents and trademarks were calculated using a market approach which relies on empirical market data from comparable intangible assets in determining the fair value of the intangible assets acquired.

The total acquisition date fair value of consideration transferred is estimated as follows:

(in thousands)	
Cash payment to MSV	$2,300
Common stock issued to MSV	425
Present value of management earn-out	640
Total acquisition date fair value	$3,365

Under the acquisition method of accounting, the identifiable assets were recognized and measured as of the acquisition date based on their estimated fair values as of December 30, 2010, the acquisition date. The excess of the acquisition date fair value of consideration transferred over estimated fair value of the net tangible assets and intangible assets was recorded as goodwill.

The following table summarizes the estimated fair values of the assets and liabilities assumed at the acquisition date:

(in thousands)	
Accounts receivable	$34
Inventory	1,173
Equipment	664
Patents	398
Trademarks	478
Non-compete agreements	288
Customer relationships	82
Goodwill	248
Net Assets Acquired	$3,365

The following table sets forth the identified intangible assets associated with the acquisition and their estimated useful lives, the estimated amortization expense per year and for five years (in thousands):

Intangible Asset	Useful Life	Amortization Per Yr.	Amortization For Five Years
Patents	5 Years	$79.6	$398.0
Trademarks	10 Years	$47.8	$239.0
Non-compete agreements	6 Years	$48.0	$240.0
Customer relationships	7 Years	$11.7	$58.6

Goodwill

Of the total estimated purchase price, approximately $248,000 was allocated to goodwill. Goodwill is defined as the excess of the purchase price of the acquired business over the fair value of the underlying net tangible and intangible assets and represents the benefits the Company expects to experience from the synergies and additional business opportunities created by the acquisition. The goodwill resulting from business acquisitions is tested for impairment at least annually and more frequently if certain indicators are present. In the event the Company determines that the value of goodwill has become impaired, it will incur an accounting charge for the amount of the impairment during the fiscal quarter in which the determination is made. Goodwill is expected to be deductible for U.S. income tax purposes over a period of 15 years.

3. ACCOUNTS RECEIVABLE

Accounts receivable at December 31 consist of the following (in thousands):

	2010	2009
Trade accounts receivable	$6,190	$7,571
Less: allowance for doubtful accounts	(33)	(36)
	$6,157	$7,535

4. INVENTORIES

Inventories at December 31 consist of the following (in thousands):

	2010	2009
Raw materials	$7,806	$7193
Work-in-process	920	525
Finished goods	2,053	1,562
Net inventories	$10,779	$9,280
Inventory reserves included in net inventories	$1,155	$999

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31 consist of the following (in thousands):

	2010	2009
Machinery and equipment	$19,489	$19,271
Office furniture and equipment	1,771	1,738
Leasehold improvements	8,767	8,397
Building and land	3,002	2,962
Property and equipment not in service	1,079	448
Total gross fixed assets	34,108	32,816
Less: accumulated depreciation and amortization	(22,360)	(21,167)
Fixed assets	$11,748	$11,649

Depreciation and amortization expense was $1.7 million and $1.8 million for the years ended December 31, 2010, and 2009, respectively.

6. ACCRUED EXPENSES

Accrued expenses at December 31 consist of the following (in thousands):

	2010	2009
Payroll and employee benefits	$1,880	$1,521
Warranty reserve(1)	138	138
Other	365	779
Accrued expenses	$2,383	$2,438

(1) Warranty Reserve	2010	2009
Beginning Balance	$138	$110
Settlement of Warranty	(60)	(85)
Adjustments to Warranty	60	113
Ending Balance	$138	$138

7. DEBT

The Company entered into a Credit and Security Agreement ("Credit Facility") with KeyBank National Association ("Key Bank") effective February 8, 2008. The Credit Facility was comprised of a Term Loan Commitment ("Term Loan") of $5.0 million and a Maximum Revolving Amount ("Revolver") of $10.0 million, for a total Credit Facility of $15.0 million. The Credit Facility is for a term of 5 years, terminating on February 8, 2013. The Company's assets served as collateral for the Credit Facility. The Company terminated the facility on June 30, 2010 after paying down the remainder of the debt.

The Company entered into a Credit Agreement with Wells Fargo Bank, National Association, ("WF Credit Agreement") on December 6, 2010, which was effective November, 1, 2010 The WF Credit Agreement establishes a line of credit that will allow the Company to borrow up to $3,000,000 from time to time through July 1, 2012 for working capital requirements. The Company is required to have a zero outstanding balance for at least 30 consecutive days during any year. All outstanding amounts of principle and interest must be repaid no later than July 1, 2012. Advances under the line of credit will bear interest at either (i) a fluctuating rate of 2.75% above the one-month LIBOR rate, or (ii) a fixed rate of 2.5% above the LIBOR rate. The Company may elect from time to time to convert all or a portion of the outstanding balance of the line of credit from one interest rate method to the other. The Company will pay Wells Fargo an annual commitment fee of $30,000 (equal to 1% of the maximum amount under the line of credit). The Company is not permitted to use the line of credit to pay dividends or to purchase its stock. The line of credit is secured by all of the Company's accounts receivable and other rights of payment, general intangibles, inventory, and equipment. In addition, the WF Credit Agreement also contains certain financial covenants that the Company must maintain.

Short term debt

	2010	2009
Line of credit	$750	$300
Current portion of long term debt	—	1,000
Short term debt	$750	$1,300

Long term debt

	2010	2009
Term Loan	—	$3,167
Less: current portion of long term debt	—	(1,000)
Long term debt	—	2,167
Total debt	$750	$3,467

Short term debt—The Company borrowed $750,000 against the WF Credit Agreement at an interest rate of 3.125%.

Long term debt— The Company paid $2.2 million against the term loan of the Credit Facility during the first quarter of 2010 and paid off the rest of the Credit Facility in the amount of $917,000 during the second quarter of 2010.

8. STOCKHOLDERS' EQUITY

The Company declared and paid a $0.25 special dividend during the fourth quarter of 2010, which resulted in a total payment of $1.3 million to shareholders.

9. ACCOUNTING FOR STOCK BASED COMPENSATION

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period. The Company determines the grant-date fair value of employee share options using the Black-Scholes option-pricing model.

On May 13, 2009 at the Company's Annual Meeting, the Company's shareholders ratified the 2009 Aldila, Inc. Equity Plan ("Equity Plan") and the 2009 Aldila, Inc. Outside Director Equity Plan ("Director Plan"). There are 860,000 shares available for grant against the Equity Plan plus any outstanding options or restricted stock awards under the Company's 1994 Stock Incentive Plan ("1994 Plan") that terminate prior to being exercised or vesting, respectively, not to exceed 212,853. The Company's Board of Directors granted 43,275 and 43,030 shares of restricted stock to employees during 2010 and 2009, respectively, under the Equity Plan.

There are 100,000 shares available for grant against the Director Plan. In accordance with the Director Plan, the Company granted 3,334 and 13,336 non-qualified stock options to its Board of Directors in 2010 and 2009, respectively. The Company recognizes share-based compensation expense using the straight line attribution method.

Stock Based Compensation Expense—

There were no capitalized stock-based compensation costs at December 31, 2010. The Company recognizes stock-based compensation expense using the straight line attribution method. The remaining unrecognized compensation cost related to unvested awards at December 31, 2010 is approximately $317,000; such expense will be recognized over a weighted average period of 2.3 years. This amount does not include the cost of any additional options or restricted stock awards that may be awarded in future periods nor any changes in the Company's forfeiture rate.

The following table summarizes compensation costs related to the Company's stock-based compensation plans for the twelve month periods ended December 31, 2010 and 2009 (in thousands):

	2010	2009
Cost of sales	$—	$—
Selling, general and administrative	191	399
Pre-tax stock-based compensation expense	191	399
Income tax benefit	(84)	(174)
Net stock-based compensation expense	$107	$225

The Company reflects income tax benefits resulting from tax deductions in excess of expense as a financing cash flow in its Consolidated Statement of Cash Flow rather than as an operating cash flow as in prior periods. Cash proceeds, tax benefits and intrinsic value of related total stock options exercised during the twelve month periods ended December 31, 2010 and 2009 are as follows (in thousands):

	2010	2009
Proceeds from stock options exercised	$15	$—
Tax benefit related to stock options exercised	$—	$—
Intrinsic value of stock options exercised	$—	$—

Stock Option Activity—

The fair value of stock options at date of grant was estimated using the Black- Scholes model. The risk free interest rate is based on the U.S. Treasury constant maturity for the expected life of the stock option. Expected volatility is based on the historical volatilities of the Company's common stock. Below is the information for the grants issued for 2010 and 2009.

	2010	2009
Expected life (years)	3.7	3.7
Risk-free interest rate	.8%	1.7%
Expected volatility	66.9%	74.1%
Expected dividend yield	0.0%	0.0%
Weighted average fair value of options granted	$2.32	$2.04

The following table summarizes the stock option transactions during the twelve month period ended December 31, 2010:

	Shares	Weighted average exercise price	Weighted average remaining contractual life (in years)	Aggregate Intrinsic Value
Options outstanding 1/1/2010	167,421	$10.22		
Options granted	3,334	4.75		
Options exercised	(10,500)	1.45		
Options terminated	(50,905)	12.11		
Options outstanding 12/31/2010	109,350	$10.02	4.0	$5.97
Options exercisable 12/31/2010	102,683	$10.35	3.8	$6.21

The total fair value of shares vested during the period ended December 31, 2010 was approximately $5,000. A summary of the status of the Company's nonvested shares as of December 31, 2010 and changes during the twelve month period ended December 31, 2010 are presented below.

Nonvested Options	Shares	Weighted Average Grant-Date Fair Value
Nonvested at 1/1/2010	26,259	$3.72
Granted	3,334	$2.32
Vested	(2,223)	$2.27
Forfeited	(20,703)	$4.12
Nonvested Options at 12/31/2010	6,667	$2.26

Restricted Stock Activity—

Restricted stock awards were issued to employees under the Company's Plan. Restricted stock awards vest over three years and are subject to the employees' continuing service to the Company. The cost of restricted stock awards is determined using the fair value of the Company's common stock on the date of the grant. The compensation expense is recognized ratably over the vesting period. A summary of the status of and changes in restricted stock units granted under the Company's Plan as of and during the twelve months ended December 31, 2010 is presented below:

	December 31, 2010	
	Shares	Weighted average exercise price
Restricted stock outstanding 1/1/2010	70,843	$5.46
Restricted stock awarded	43,275	$4.40
Restricted stock vested	(32,888)	$7.48
Restricted stock terminated	(474)	$7.23
Restricted stock outstanding 12/31/2010	80,756	$4.06

10. INCOME TAXES

The Company has analyzed filing positions in all of the federal, state, and foreign jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions.

The Company has unrecognized tax positions of $1.1 million as of December 31, 2010 and $1.8 million as of December 31, 2009. The Company had other current liabilities of $509,000 and other long term liabilities of $1.3 million as of December 31, 2009. As of December 31, 2010, such amounts were $143,000 and $949,000, respectively. As of December 31, 2010, the Internal Revenue Service concluded their examination of the December 31, 2007 tax return. The conclusion of the audit resulted in $288,000 of additional taxes due to the disallowance of the scrap inventory position. As this position was the only uncertain tax position overturned, the remaining 2007 unrecognized tax benefits of approximately $604,000 were released. An amended California return will be filed to report the audit adjustment. During 2010, the statute of limitations expired for 2006 and 2005 for Federal and State purposes, respectively. The release of these unrecognized tax benefits resulted in a reduction of the reserve of approximately $353,000, not including interest. The total interest related to the statute of limitations expiration and the conclusion of the IRS audit totaled approximately $106,000.

The changes to Company's unrecognized tax benefits during the periods ended December 31, 2010 and 2009 are as follows:

	December 31, 2010		
	Increases	**Decreases**	**Net Change**
Beginning period total unrecognized tax benefits			$1,841
Changes to unrecognized tax positions from a prior period(1)	$—	$(604)	(604)
Tax positions taken during the current period(2)	285	—	285
Lapse of statute of limitations	—	(353)	(353)
Additional interest recognized	29	(106)	(77)
Ending period total unrecognized tax benefits	$314	$(1,063)	$1,092

	December 31, 2009		
	Increases	**Decreases**	**Net Change**
Beginning period total unrecognized tax benefits			$1,625
Changes to unrecognized tax positions from a prior period	$—	$—	—
Tax positions taken during the current period(2)	336	—	336
Lapse of statute of limitations	—	(146)	(146)
Additional interest recognized	56	(30)	26
Ending period total unrecognized tax benefits	$392	$(176)	$1,841

Notes

(1) The decrease in the reserve results from the release of the 2007 uncertain tax positions and the expiration of related statute of limitations. The uncertain tax positions were released as the taxing authority has completed its examination procedures including appeals and administrative reviews that the taxing authority is required and expected to perform, and it is remote that the taxing authority would reexamine any aspect of the tax positions.

(2) The increase in the reserve for the respective years is attributed to potential transfer pricing issues related to the Company's Chinese Subsidiary for taxes paid in China and the R&D credits taken on the California tax return.

The Company does not anticipate material changes to the Company's unrecognized tax benefits that were reserved for during the period. However, the Company is in the appeal process with the California Franchise Tax Board ("FTB") in regards to its 2001-2004 research and development credit audit. If the Company has a positive outcome during the appeal process, it may be able to recognize the tax position related to the FTB audit. In addition, the Company is under general FTB audit for the years ended 2005 and 2006. The Company's practice is to recognize interest related to income tax matters in income tax expense. During the twelve month period ended December 31, 2010, the Company recognized approximately $29,000 of additional interest. As of December 31, 2010 and December 31, 2009, the Company had approximately $74,000 and $150,000, respectively, accrued for interest.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company is generally no longer subject to income tax examinations by tax authorities in its major jurisdictions as follows:

Tax Jurisdiction	Years No Longer Subject to Audit
U.S. Federal	2006 and before
California	2001 and before
Texas	2006 and before
Tennessee	2006 and before
Utah	2006 and before
China	2005 and before
Mexico	2005 and before

The Company's tax years for 2001 and forward are subject to examination by the California tax authorities due to the carry-forward of research and development credits.

Income tax provision for the years ended December 31, is as follows (in thousands):

	2010	**2009**
Current:		
Federal	$(605)	$244
State	70	(115)
Foreign	87	85
Total	(448)	214
Deferred:		
Federal	$182	$(119)
State	111	212
Total	293	93
Provision for income taxes	$(741)	$121

Rate reconciliations for the years ended December 31, are as follows:

	2010	**2009**
Statutory rate	34.0%	(34.0)%
State income taxes, net of Federal tax benefit	(1.8)%	(214.6)%
R&D tax credits	(4.8)%	(68.9)%
Foreign earnings taxed at different rates	(28.8)%	(300.2)%
FIN 48	(49.2)%	182.2%
Repatriation of Foreign earnings	7.1%	510.8%
Other items	(5.1)%	23.9%
Effective rate	(48.6)%	99.2%

Net deferred income taxes included in current and long-term assets in the balance sheet at December 31, 2010 and 2009, consist of the tax effects of temporary differences related to the following:

Deferred tax assets—net, current	**2010**	**2009**
Inventories	$612	$510
Accrued expenses	382	400
Allowance for doubtful accounts	14	16
Deferred expenses (capital losses)	46	47
State income taxes	(350)	(338)
Other	(58)	(73)
Deferred tax assets—current	$646	$562

Deferred tax assets—net, long-term	2010	2009
Property and equipment	$119	$376
Stock Based Compensation Expense	437	526
Tax Credits	685	212
State NOL	480	396
Other	16	18
Deferred tax assets—long term	$1,737	$1,528

Reconciliation of deferred tax assets	2010	2009
Deferred tax assets—current	$646	$562
Deferred tax assets—long term	1,737	1,528
Total deferred tax asset	$2,383	$2,090

The Company has adopted the position that earnings of its foreign subsidiaries will be permanently reinvested outside of the United States. Although, the Company repatriated funds in 2010 to assist with working capital needs, it does not routinely do so nor does it intend to do so in the future. As such, United States deferred taxes have not been provided for on these earnings.

11. EMPLOYEE BENEFIT PLAN

In 1994, the Company adopted the Aldila, Inc. 401(k) Savings Plan (the "Plan") for employees of the Company and its subsidiaries. This defined contribution plan allows employees who satisfy the age and service requirements of the Plan to contribute up to the maximum amount permitted under federal law. The Company matches the first 4% of wages contributed by employees at a rate of $0.50 for every $1.00. The Company's matching contributions vest over four years based on years of service. The Company's contributions amounted to approximately $160,000 in 2010 and 2009.

12. COMMITMENTS AND CONTINGENCIES

The Company leases building space and certain equipment under operating leases. The Company's leases for office and manufacturing space contain rental escalation clauses and renewal options. Rental expense for the Company was $1.4 million and $1.4 million for 2010 and 2009, respectively. As of December 31, 2010, future minimum lease payments for all operating leases are as follows (in thousands):

2011	$1,306
2012	1,187
2013	1,121
2014	1,079
2015	512
Thereafter	706
	$5,911

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. The Company has employment agreements with its officers, which include change of control provisions and other termination contingencies.

13. SEGMENT INFORMATION

The Company classifies its business into two segments based on products offered; Composite Products and Composite Materials. The Composite Products segment is primarily comprised of sales of graphite golf shafts. The Composite Materials segment is comprised of external sales of prepreg uni-tapes, fabrics and film adhesives. The Company evaluates performance based on profit or loss from operations. The Company does not evaluate inter-segment sales and has never tracked such sales. The Composite Materials segment produces the majority of its materials for the Composite Products segment. Certain SG&A costs and other shared support costs are recorded initially in the Composite Products segment and allocated for segment reporting.

Segment Operating Results

	Twelve months ended December 31, 2010		
	Composite Products	Composite Materials	Total
Revenues from external customers	$43,574	$11,136	$54,710
Operating (loss) income	$(499)	$2,058	$1,559
(Loss) income before income taxes	$(527)	$2,051	$1,524

	Twelve months ended December 31, 2009		
	Composite Products	Composite Materials	Total
Revenues from external customers	$42,618	$7,156	$49,774
Operating (loss) income	$(906)	$1,029	$123
(Loss) income before income taxes	$(1,116)	$994	$(122)

Segment Long-Lived Assets

	As of December 31,	
	2010	2009
Property, Plant and Equipment		
Composite Products	$6,802	$6,781
Composite Materials(1)	4,946	4,868
Subtotal Property, Plant and Equipment	11,748	11,649
Intangible Assets	1,311	81
Goodwill	248	-
Total Long-Lived Assets	$13,307	$11,730

Note (1) These assets also support the Composite Products segment as the Composite Materials segment manufactures the majority of the materials consumed by the Composite Products segment.

Information about Geographic Areas

The Company markets its products domestically and internationally, with its principal international market being Europe. The table below contains information about the geographical areas in which the Company operates. Revenues are attributed to countries based on location in which the sale is settled. Long-lived assets are based on the country of domicile. Although sales to China have increased over the years, the majority of those shafts being sold in China are being assembled and sent back to either the United States or to Europe. The majority of the international sales are attributed to the Composite Products segment. Composite Materials international sales are immaterial.

(in thousands) 2010	Sales	Long-Lived Assets
United States	$32,106	$8,296
England	5,562	—
China	14,541	1,183
Canada	95	—
Australia	333	—
Vietnam	679	3,828
Other Foreign Countries	1,394	—
Total	$54,710	$13,307

2009	Sales	Long-Lived Assets
United States	$26,947	$6,570
England	5,192	—
China	14,973	1,390
Canada	106	—
Australia	418	—
Vietnam	878	3,770
Other Foreign Countries	1,260	—
Total	$49,774	$11,730

Information about Major Customers

Historically, the Company's principal customers have varied as a result of general market trends in the golf industry, in particular the prevailing popularity of the various clubs that contain the Company's shafts. As a result, there typically are changes in the composition of the list of the Company's ten most significant customers from year to year. Due to the substantial marketplace success of their clubs in recent periods, for the last several years the Company's largest customers have been Acushnet Company, Callaway Golf, and Ping.

Major Customers	**2010**	**2009**
Ping	22%	21%
Acushnet Company	8%	11%
Callaway Golf	12%	10%

14. QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following is a summary of the quarterly results of operations for the two years in the period ended December 31, 2010 (in thousands, except per share data):

	Quarter Ended			
	Mar 31,	Jun 30,	Sep 30,	Dec 31,
2010:				
Net sales	$16,119	$14,398	$12,227	$11,966
Gross profit	4,233	3,592	2,852	1,779
Net income (loss)	707	704	1,257	(403)
Net income (loss) per common share—basic	$0.14	$0.14	$0.24	$(0.08)
Net income (loss) per common share—diluted	$0.13	$0.13	$0.24	$(0.08)
2009:				
Net sales	$13,803	$10,574	$10,671	$14,726
Gross profit	2,862	1,383	2,518	3,917
Net (loss) income	(48)	(627)	(571)	1,003
Net (loss) income per common share—basic	$(0.01)	$(0.12)	$(0.11)	$0.19
Net (loss) income per common share—diluted	$(0.01)	$(0.12)	$(0.11)	$0.19

Earnings per share are computed independently for each of the quarters presented and therefore may not sum to the annual amount for the year.

15. SUBSEQUENT EVENTS

On February 14, 2011, the Company entered into a lease amendment for its facility located at 14145 Danielson Street Suite B, Poway, CA 92064. The amendment extended the original term of the lease, which was set to expire on April 30, 2012 for a period of five years to April 30, 2017.

On March 18, 2011, the Company filed a complaint against one of its competitors for declaratory relief from non patent infringement, invalidity of patent and unfair competition under state law.

Management reviewed for subsequent events through March 28, 2011, which is the date the financial statements were issued.

Corporate Officers / Directors

Peter R. Mathewson
Chairman of the Board
Chief Executive Officer

Robert J. Cierzan
Sr. Vice President, Composite Materials

Scott M. Bier
Vice President, Chief Financial Officer
Secretary and Treasurer

Michael J. Rossi
Vice President, Sales and Marketing

Thomas A. Brand
Director

Officers / Aldila Golf Corp.

David B. Lopez
Vice President of Operations

John E. Oldenburg
Vice President, Engineering/Product Development

Facilities

Corporate Headquarters
14145 Danielson St., Suite B
Poway, California 92064

Aldila Composite Materials Division
Prepreg Manufacturing
13450 Stowe Dr.
Poway, California 92064

Shaft Manufacturing

Aldila Carbon Fiber Products (Zhuhai) Co. Ltd.
No. 230 Xin Hua Road
Xin Xiang Zhou District
Zhuhai, Guangdong
PRC 519070

Aldila Composite Products Company, Ltd.
No. 30 VSIP Street 8
Vietnam Singapore Industrial Park 1
Thuan An Dist., Binh Duong Province, Vietnam

Annual Meeting Of Stockholders

Record Date:	March 21, 2011
Meeting Date:	May 18, 2011
Time:	10:30 A.M. PDT
Location:	Aldila Headquarters 14145 Danielson St., Suite B Poway, CA 92064

Corporate Counsel

Seltzer Caplan McMahon Vitek
San Diego, California

Independent Auditors

Mayer Hoffman McCann P.C.
San Diego, California

Designated Advisor for Disclosure ("DAD")

B. Riley & Co., LLC

Annual Report

The Company's public filings are available from the OTCQX U.S. Premier Website at OTCQX.com symbol - ALDA

Stockholders Records

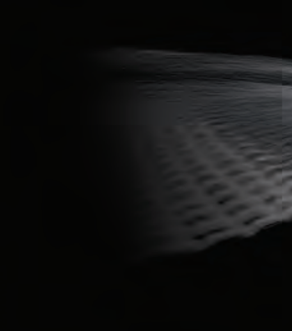
Requests by stockholders to consolidate an account or change a mailing address should be forwarded to:

American Stock Transfer and Trust Company
6201 15th Avenue
Brooklyn, NY 11219
(800) 937-5449

Shareholders can access and view their own accounts through web site address:
www.amstock.com

Web Site Information

The Aldila Web Site at www.aldila.com contains expanded information about Aldila products, services and facilities, as well as corporate and investor information, financial reports and presentations, and news releases. Or call the Aldila corporate offices at (858) 513-1801.



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