

ELEMENT 21 GOLF CO
Form 10QSB
February 14, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2005
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 0-15260

Element 21 Golf Company

(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

88-0218411
(Internal Revenue Service Employer Identification No.)

207 Queens Quay W. #455, Toronto, Ontario, Canada, M5J 2A7
(Address of principal Executive offices Zip Code)

800-710-2021

Issuer's telephone number, including area code

Former name, former address and formal fiscal year if changed since last report

-

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date, **99,093,950** shares of common stock, par value \$.01 per share as of February 1, 2006.

Transitional Small Business Disclosure Format (Check One) Yes o No

Element 21 Golf Company

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PART 1 - FINANCIAL INFORMATION**Item 1 - Financial Statements****ELEMENT 21 GOLF COMPANY
CONSOLIDATED CONDENSED BALANCE SHEETS****- ASSETS -**

	December 31, 2005 (unaudited)	June 30, 2005
CURRENT ASSETS:		
Cash	\$ 1,475	\$ 1,148
Accounts receivable - net of allowance for doubtful accounts of \$0	1,051	36,451
Inventories	181,913	170,928
Prepaid expenses and other current assets	4,180	6,380
TOTAL CURRENT ASSETS	188,619	214,907
FIXED ASSETS - NET	563,838	12,712
TOTAL ASSETS	\$ 752,457	\$ 227,619

- LIABILITIES AND SHAREHOLDERS' DEFICIT -

CURRENT LIABILITIES:		
Accounts payable	\$ 1,066,280	\$ 416,446
Accrued expenses	516,566	543,000
TOTAL CURRENT LIABILITIES	1,582,846	959,446
LONG-TERM LIABILITIES:		
Accounts payable - related parties	671,246	483,764
Loans and advances - officers/shareholders	504,001	484,251
	1,175,247	968,015
TOTAL LIABILITIES	2,758,093	1,927,461
SHAREHOLDERS' DEFICIT:		
Preferred stock, \$.10 par value, authorized 5,000,000 shares, no shares issued and outstanding	--	--
Common stock, \$.01 par value; 100,000,000 shares authorized 99,093,950 and 87,487,241 shares issued and outstanding at December 31, and June 30, 2005, respectively	990,940	874,872
Additional paid-in capital	11,003,439	10,141,767
Accumulated deficit	(14,000,015)	(12,716,481)
	(2,005,636)	(1,699,842)
	\$ 752,457	\$ 227,619

See notes to consolidated financial statements.

ELEMENT 21 GOLF COMPANY**CONSOLIDATED STATEMENTS OF OPERATIONS**
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2005 AND 2004
(unaudited)

	Six Months Ended December 31		Three months Ended December 31	
	2005	2004	2005	2004
REVENUES	\$ 25,700	\$ --	\$ 3,080	\$ --
COSTS AND EXPENSES				
Costs of sales	14,124	--	2,050	--
General and administrative	1,295,110	500,691	325,818	74,773
TOTAL COSTS AND EXPENSES	1,309,234	500,691	327,868	74,773
LOSS FROM OPERATIONS - BEFORE PROVISION FOR INCOME TAXES	(1,283,534)	(500,691)	(324,788)	(74,773)
Provision for income taxes	--	--	--	--
NET LOSS	\$ (1,283,534)	\$ (500,691)	\$ (324,788)	\$ (74,773)
Basic and diluted weighted average shares	96,793,992	85,319,979	98,917,101	86,653,312
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.00)

See notes to consolidated financial statements.

ELEMENT 21 GOLF COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2005 AND 2004
(unaudited)

	Six Months Ended December 31	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,283,534)	\$ (500,691)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Compensatory stock	897,740	288,000
Depreciation	80,638	152
Changes in:		
Accounts receivable	35,400	--
Inventories	(10,985)	--
Prepaid expenses and other current assets	2,200	(6,773)
Accounts payable	649,834	153,810
Accrued expenses	(26,434)	3,742
Net cash provided from (used in) operating activities	344,859	(61,760)
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of capital assets	(631,764)	(3,057)
Net cash (used in) investing activities	(631,764)	(3,057)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loans and advances from related parties	207,232	63,449
Proceeds from sale of warrants to purchase common stock	80,000	--
Net cash provided by financing activities	287,232	63,449
NET INCREASE (DECREASE) IN CASH	327	(1,368)
CASH, BEGINNING OF PERIOD	1,148	2,794
CASH, END OF PERIOD	\$ 1,475	\$ 1,426
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ --	\$ --
Taxes paid	--	--

See notes to consolidated financial statements.

ELEMENT 21 GOLF COMPANY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
December 31, 2005
(Unaudited)

NOTE 1 NATURE OF BUSINESS AND OPERATIONS:

Element 21 Golf Company and subsidiaries (the “Company” and or “Element 21”) designs, develops and has begun to market, Scandium alloy golf products. The first products manufactured using the Company’s proprietary technology have been recently produced and the Company commenced distribution to wholesalers and retail markets during the last quarter of its fiscal year ended June 30, 2005.

The Company is subject to a number of risks similar to those of other companies in the early stages of operations. Principal among these risks are dependencies on key individuals, competition from other current or substitute products and larger companies, the successful marketing of its products and the need to obtain adequate financing necessary to fund future operations. Certain consultants, who are also stockholders of the Company, have advanced funds to allow the Company to acquire aluminum Scandium alloy concentrate from Russia and to acquire critical lateral forging equipment made in the US, both of which were shipped to South Korea to enable the production of Scandium alloy golf shafts.

The accompanying unaudited consolidated condensed financial statements have been prepared from the books and records of Element 21 on the same basis as the annual financial statements and are consistent with the instructions to Form 10-QSB and Rule 310 of Regulation S-B. Accordingly, the accompanying financial statements do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. All significant inter-company accounts and transactions have been eliminated in consolidation. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the periods ended December 31, 2005 are not necessarily indicative of the results that may be expected for the year ending June 30, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report for the year ended June 30, 2005.

NOTE 2 FUTURE OPERATIONS/GOING CONCERN:

These interim financial statements have been presented on the basis that the Company is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has only recently begun producing revenues however, not on any consistent basis. Even with the generation of revenues from the sale of golf shafts now being produced and sold, the Company expects to incur expenses in excess of revenues for an indefinite period.

Key financial information follows:

	Six Months Ended December 31, 2005	Year Ended June 30, 2005
Negative working capital	\$ 1,394,227	\$ 744,539
Net loss	1,283,534	1,352,931

As shown in the accompanying financial statements, during the three and six months ended December 31, 2005 the Company incurred a net loss of \$324,788 and \$1,283,534, respectively. Cash provided from operations during this period was \$344,859, however, the Company also borrowed funds from its shareholders / officers and sold common stock purchase warrants in order to use \$631,764 for the purchase of capital assets. For the fiscal year ended June 30, 2005, the Company realized a net loss of \$1,352,931 and utilized cash of \$414,754 for operating purposes.

ELEMENT 21 GOLF COMPANY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
December 31, 2005
(Unaudited)

NOTE 2 FUTURE OPERATIONS/GOING CONCERN (CONTINUED):

These factors, among others, raise significant doubt about the Company's ability to continue as a going concern. The unaudited consolidated condensed financial statements do not include any adjustments relating to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow and meet its obligations on a timely basis and ultimately attain profitability. Since acquiring the Element 21 Technologies golf development business, the Company has depended on advances and consulting services from consultants engaged by the Company. Absent these continuing advances and services, the Company could not continue with the development and marketing of its golf products.

Managements' plans for the Company include more aggressive marketing, raising additional capital and other strategies designed to optimize shareholder value. However, no assurance can be made that management will be successful in fulfilling all components of its plan. The failure to achieve these plans will have a material adverse effect on the Company's financial position, results of operations and ability to continue as a going concern.

During the six months ended December 31, 2005 the Company issued 11,606,709 shares of its common stock to consultants for services rendered by them and recorded an expense of \$897,740 respectively. The Company, during the first quarter of the current fiscal year, also sold warrants to purchase one million shares of its common stock at a price of \$0.08 per warrant, realizing proceeds of \$80,000. The exercise price for shares purchased under this warrant is \$.15 per share.

NOTE 3 RELATED PARTY ADVANCES:

During the six month period ended December 31, 2005, certain related parties advanced to the Company a total of \$207,232. These advances are recorded as an increase in loans.

NOTE 4 NET LOSS PER SHARE:

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the periods. Diluted net loss per share reflects, in addition to the weighted average number of common shares, the potential dilution if stock options and warrants outstanding were exercised and/or converted into common stock, unless the effect of such equivalent shares was anti-dilutive.

For the three and six months ended December 31, 2005 and 2004, the effect of stock options (52,800 outstanding as of December 31, 2005) and other potentially dilutive shares were excluded from the calculation of diluted net loss per common share, as their inclusion would have been anti-dilutive. Therefore diluted loss per share is equal to basic loss per share.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Cautionary Statement Regarding Forward-Looking Information

Under the Private Securities Litigation Reform Act of 1995, companies are provided with a "safe harbor" for making forward-looking statements about the potential risks and rewards of their strategies. Forward-looking statements often include the words "believe", "expect", "anticipate", "intend", "plan", "estimate" or similar expressions. In this Form 10-QSB, forward-looking statements also include:

- statements about our business plans;
- statements about the potential for the development, regulatory approval and public acceptance of new services;
- estimates of future financial performance;
- predictions of national or international economic, political or market conditions;
- statements regarding other factors that could affect our future operations or financial position; and
- other statements that are not matters of historical fact.

These statements may be found under "Management's Discussion and Analysis or Plan of Operation" as well as in this Form 10-QSB generally. Our ability to achieve our goals depends on many known and unknown risks and uncertainties, including changes in general economic and business conditions. These factors could cause our actual performance and results to differ materially from those described or implied in forward-looking statements.

These forward looking statements speak only as of the date of this Form 10-QSB. We believe it is in the best interest of our investors to use forward-looking statements in discussing future events. However, we are not required to, and you should not rely on us to, revise or update these statements or any factors that may materially affect actual results, whether as a result of new information, future events or otherwise. You should carefully review the risk factors described in this Form 10-QSB and also review the other documents we file from time to time with the Securities and Exchange Commission ("SEC").

Results of Operations

Three and Six Months Ended December 31, 2005 and 2004

For the six months ended December 31, 2005 the Company, had revenues of \$25,700 and incurred costs of sales of \$14,124 and general and administrative expenses of \$1,295,110. Included in general and administrative expenses is a non-cash charge of \$897,740, representing the value of common shares issued for services provided by consultants. This resulted in a net loss of \$1,283,534, as compared with the six months ended December 31, 2004 in which the Company had no revenues and general and administrative expenses of \$500,691, resulting in a net loss also of \$500,691. For the three months ended December 31, 2005 the Company, had revenues of \$3,080 and incurred costs of sales of \$2,050 and general and administrative expenses of \$325,818. Included in general and administrative expenses for the current three month period, is a non-cash charge of \$118,200, representing the value of common shares issued for services provided by consultants. This resulted in a net loss of \$324,788, as compared with the three months ended December 31, 2004 in which the Company had no revenues and general and administrative expenses of \$74,773, resulting in a net loss also of \$74,773. The primary reason for the higher amount of general and administrative expenses during the six and three month periods ending December 31, 2005, is due to expenditures incurred in the marketing of our product.

Financial Condition, Liquidity and Capital Resources

The Company has negative working capital as of December 31, 2005 of \$1,394,227. However, the Company retains consultants who are also significant stockholders of the Company to perform development and public company

reporting activities in exchange for stock of the Company. At June 30, 2005, we had a working capital deficiency of \$744,539. Our continuation as a going concern will require that we raise significant additional capital.

Absent continued issuance of common stock for services by these consultants and continued advances by stockholders of the Company, the Company cannot manufacture its golf shaft product line or market golf products based on its technologies. The Company is actively searching for capital to implement its business plans, supply the Company with products for distribution, and develop collateral materials for its potential customer base. There can be no assurance such capital will be raised on terms acceptable to the Company and if this capital is raised, it, may cause significant dilution to the Company's stockholders.

Dividend Policy

The Company has not declared or paid any cash dividends on its common stock since its inception and does not anticipate the declaration or payment of cash dividends in the foreseeable future. The Company intends to retain earnings, if any, to finance the development and expansion of its business. The Company's future dividend policy will be subject to the discretion of the Board of Directors and will be contingent upon future earnings, if any, the Company's financial condition, capital requirements, general business conditions and other factors. Therefore, there can be no assurance that dividends of any kind will ever be paid.

Effect of Inflation

Management believes that inflation has not had a material effect on its operations for the periods presented.

Risk Factors

We Have A Limited Operating History And A History Of Substantial Operating Losses.

We have a history of substantial operating losses and an accumulated deficit of \$14,000,015 as of December 31, 2005. We have historically experienced cash flow difficulties primarily because our expenses have exceeded our revenues. We expect to incur additional operating losses. These factors, among others, raise significant doubt about our ability to continue as a going concern. If we are unable to generate sufficient revenue from our operations to pay expenses or we are unable to obtain additional financing on commercially reasonable terms, our business, financial condition and results of operations will be materially and adversely affected.

We Will Need Additional Financing In Order to Continue Our Operations Which We May Not Be Able to Raise.

We will require additional capital to finance our future operations. We can provide no assurance that we will obtain additional financing sufficient to meet our future needs on commercially reasonable terms or otherwise. If we are unable to obtain the necessary financing, our business, operating results and financial condition will be materially and adversely affected.

We Have No Employees and Our Success Is Dependent On Our Ability to Retain And Attract Consultants to Operate Our Business and There Is No Assurance That We Can Do So.

As of December 31, 2005, we have no employees and utilize the services of consultants. Nataliya Hearn, PhD, who is also our CEO and President based in Toronto, Canada, oversees the Company's engineering, alloy supply and production. Jim Morin, who is also our Vice-President, Secretary and Treasurer, and Frank Gojny, both of whom are based in California, oversee the development, testing and United States Golf Association compliance for golf products.

The Duran Group was added in December 2004 to consult on the sales and marketing of the Company. Our future success will depend in large part upon our ability to attract and retain highly skilled technical, managerial, sales and

marketing personnel and consultants. There is significant competition for such personnel in our industry. There can be no assurance that we will continue to be successful in attracting and retaining the consultants and/or personnel we require to develop new and enhanced technologies and to grow and operate profitably.

Our Performance Depends On Market Acceptance Of Our Products and We Cannot Be Sure That Our Products Are Commercially Viable.

We expect to derive a substantial portion of our future revenues from the sales of Scandium alloy golf shafts that are only now entering the initial marketing phase. Although we believe our products and technologies will be commercially viable, these are new and untested products. If markets for our products fail to develop, develop more slowly than expected or are subject to substantial competition, our business, financial condition and results of operations will be materially and adversely affected.

We Depend On Strategic Marketing Relationships and If We Fail to Maintain or Establish Them, Our Business Plan May Not Succeed.

We expect our future marketing efforts will focus in part on developing business relationships with distributors that will market our products to their customers. The success of our business depends on selling our products and technologies to a large number of distributors and retail customers. Our inability to enter into and retain strategic relationships, or the inability to effectively market our products, could materially and adversely affect our business, operating results and financial condition.

Competition From Traditional Golf Equipment Providers May Increase And We May Not Be Able to Adequately Compete.

The market for golf shafts is highly competitive. There are a number of other established providers that have greater resources, including more extensive research and development, marketing and capital than we do and also have greater name recognition and market presence. These competitors could reduce their prices and thereby decrease the demand for our products and technologies. These competitors may lower their prices to compete with us. We expect competition to intensify in the future, which could also result in price reductions, fewer customer and lower gross margins.

Rapidly Changing Technology And Substantial Competition May Adversely Affect Our Business.

Our business is subject to rapid changes in technology. We can provide no assurances that research and development by competitors will not render our technology obsolete or uncompetitive. We compete with a number of companies that have technologies and products similar to those offered by us and have greater resources, including more extensive research and development, marketing and capital than we do. We can provide no assurances that we will be successful in marketing our existing products and developing and marketing new products in such a manner as to be effective against our competition. If our technology is rendered obsolete or we are unable to compete effectively, our business, operating results and financial condition will be materially and adversely affected.

Litigation Concerning Intellectual Property Could Adversely Affect Our Business.

We rely on a combination of trade secrets, trademark law, contractual provisions, confidentiality agreements and certain technology and security measures to protect our trademarks, license, proprietary technology and know-how. However, we can provide no assurance that competitors will not infringe upon our rights in our intellectual property or that competitors will not similarly make claims against us for infringement. If we are required to be involved in litigation involving intellectual property rights, our business, operating results and financial condition will be materially and adversely affected.

It is possible that third parties might claim infringement by us with respect to past, current or future technologies. We expect that participants in our markets will increasingly be subject to infringement claims as the number of services and competitors in our industry grows. Any claims, whether meritorious or not, could be time-consuming, result in

costly litigation and could require us to enter into royalty or licensing agreements. These royalty or licensing agreements might not be available on commercially reasonable terms or at all.

Defects In Our Products May Adversely Affect Our Business.

Complex technologies such as the technologies developed by us may contain defects when introduced. Our introduction of technology with defects or quality problems may result in adverse publicity, product returns, reduced orders, uncollectible or delayed accounts receivable, product redevelopment costs, loss of or delay in market acceptance of our products or claims by customers or others against us. Such problems or claims may have a material and adverse effect on our business, financial condition and results of operations.

There Are Risks Associated With Our Stock Trading On The NASD OTC Bulletin Board Rather Than a National Exchange.

There are significant consequences associated with our stock trading on the NASD OTC Bulletin Board rather than a national exchange. The effects of not being able to list our securities on a national exchange include:

- Limited release of the market prices of our securities;
- Limited news coverage of us;
- Limited interest by investors in our securities;
- Volatility of our stock price due to low trading volume;
- Increased difficulty in selling our securities in certain states due to “blue sky” restrictions; and
- Limited ability to issue additional securities or to secure additional financing.

“Penny Stock” Regulations May Impose Certain Restrictions On The Marketability of Our Securities.

The Securities and Exchange Commission (the “Commission”) has adopted regulations which generally define “penny stock” to be any equity security that has a market price (as defined) less than \$5.00 per share, subject to certain exceptions. The Company's Common Stock is presently subject to these regulations which impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a risk disclosure document mandated by the Commission relating to the penny stock market. The broker-dealer must also disclose the commission payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the “penny stock” rules may restrict the ability of broker-dealers to sell the Company's securities and may negatively affect the ability of purchasers of the Company's shares of Common Stock to sell such securities.

ITEM 3 CONTROLS AND PROCEDURES:

(a) Evaluation of disclosure controls and procedures. Management, including our Chief Executive Officer and Principal Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on this evaluation, our Chief Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective to provide a reasonable level of assurance that the information required to be disclosed in the reports filed or submitted by us under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the requisite time periods.

(b) Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1 LEGAL PROCEEDINGS

None

Item 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

Item 3 DEFAULT UPON SENIOR SECURITIES

None

Item 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

Item 5 OTHER INFORMATION

None

Item 6 EXHIBITS

Exhibit No. Exhibit Description

31.1 Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002

31.2 Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002

32.1 Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002

SIGNATURE

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

Element 21 Golf Company

Date: February 14, 2006

By: /s/ Nataliya Hearn, Ph.D.

Nataliya Hearn, Ph.D.
President and Director

Date: February 14, 2006

By: /s/ Jim Morin

Secretary, Treasurer,
CFO and Director

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