

ELEMENT 21 GOLF CO
Form 10QSB
November 20, 2006
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**UNITED STATES
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 September 30, 2006
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.)

**200 Queens Quay East, Unit #1, Toronto, Ontario, Canada,
M5A 4K9**

(Address of principal Executive offices Zip Code)

416-362-2121

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 No

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date, 112,298,861 shares of common stock, par value \$.01 per share as of November 15, 2006.

Transitional Small Business Disclosure Format (Check One) Yes No

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Element 21 Golf Company

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CONSOLIDATED CONDENSED BALANCE SHEETS****- ASSETS -**

	September 30, 2006 (unaudited)	June 30, 2006
CURRENT ASSETS:		
Cash	\$1,481,772	\$263,219
Accounts receivable - net of allowance for doubtful accounts of \$0	7,063	11,994
Inventories	387,819	128,382
Prepaid expenses and other current assets	112,933	17,907
TOTAL CURRENT ASSETS	1,989,587	421,502
FINANCING COSTS - NET	294,618	
FIXED ASSETS - NET	440,412	510,530
TOTAL ASSETS	\$ 2,724,347	\$ 932,032

- LIABILITIES AND SHAREHOLDERS' DEFICIT -

CURRENT LIABILITIES:		
Accounts payable	\$ 344,971	\$ 157,191
Accrued expenses	1,053,492	1,054,858
Accrued interest	44,294	31,485
Convertible notes	290,178	348,581
Derivative liability	3,498,286	1,491,945
TOTAL CURRENT LIABILITIES	5,231,221	3,084,060

LONG-TERM LIABILITIES:

Accounts payable - related parties	39,396	504,001
Loans and advances - officers/shareholders	482,076	104,162
	521,472	608,163

SHAREHOLDERS' DEFICIT:

Preferred stock, \$.10 par value, authorized 5,000,000 shares, no shares issued and outstanding		-
Series A Preferred stock, \$.001 par value, authorized 5,000,000 shares, 2,348,848 and 2,113,556 issued and outstanding, as of September 30 and June 30, 2006	2,114	2,114
Series B Preferred stock, \$.01 par value, authorized 350,000 shares, 117,648 and 0 shares issued and outstanding at September 30 and June 30, 2006, respectively	117	-
Common stock, \$.01 par value; 300,000,000 shares authorized, 111,558,071 and 99,630,554	1,115,583	996,308

shares issued and outstanding at September 30,
and June 30, 2006, respectively

Additional paid-in capital	17,004,070	13,453,963
Prepaid expense	(675,000)	-
Accumulated deficit	(20,475,231)	(17,212,576)
	(3,028,347)	(2,760,191)
	\$ 2,724,347	\$ 932,032

See notes to consolidated financial statements.

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ELEMENT 21 GOLF COMPANY
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(unaudited)

	Three months Ended September 30,	
	2006	2005
REVENUES	\$ 1,227	\$ 22,620-
COSTS AND EXPENSES		
Costs of sales	14,823	12,074
Depreciation expense	88,433	-
General and administrative	1,169,893	969,292
TOTAL COSTS AND EXPENSES	1,273,149	981,366
LOSS FROM OPERATIONS	(1,271,922)	(958,746)
OTHER INCOME (EXPENSE)		
Interest expense	(299,571)	
Derivative income (expense)	302,579	
Other expense, net	(13,839)	
	(10,831)	
LOSS BEFORE PROVISION FOR INCOME TAXES	(1,282,753)	(958,746)
Provision for income taxes	-	-
NET LOSS	\$ (1,282,753)	\$ (958,746)
Preferred stock dividends	2,000,000	-
LOSS APPLICABLE TO COMMON STOCKHOLDERS	(3,282,753)	(958,746)
Basic and diluted weighted average shares	101,121,594	94,647,551
Basic and diluted loss per share	\$ (0.03)	\$ (0.01)

See notes to consolidated financial statements.

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ELEMENT 21 GOLF COMPANY
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(unaudited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (3,282,753)	\$ (958,746)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Compensatory common stock and warrants	854,788	779,539
Beneficial conversion feature of convertible notes	56,029	
Depreciation and amortization	86,408	784
Amortization of discount to convertible notes	247,957	
Excess derivative liability expense (income)	(302,579)	
Changes in:		
Accounts receivable	4,931	30,258
Inventories	(259,437)	40,461
Prepaid expenses and other current assets	(95,026)	2,200
Accounts payable	187,780	(58,391)
Accrued expenses	(1,366)	-
Derivative liability	2,006,341	
Accrued interest	12,809	
Net cash (used in) operating activities	(484,118)	(163,895)
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of capital assets	(10,638)	(3,200)
Net cash (used in) investing activities	(10,638)	(3,200)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances from related parties	(64,766)	89,763
Loans and advances from officers/shareholders	(21,925)	
Financing costs	(300,000)	
Net proceeds from bridge loans	100,000	
Proceeds from sale of preferred shares	2,000,000	80,000
Net cash provided from financing activities	1,713,309	169,763
NET INCREASE IN CASH	1,218,553	2,668
CASH, BEGINNING OF PERIOD	263,219	1,148
CASH, END OF PERIOD	\$ 1,481,772	\$ 6,633
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ -	\$ -
Taxes paid	-	-

See notes to consolidated financial statements.

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ELEMENT 21 GOLF COMPANY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
September 30, 2006
(Unaudited)

NOTE 1 NATURE OF BUSINESS AND OPERATIONS:

Element 21 Golf Company and subsidiaries (a development stage enterprise) (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 it’s 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 potential need to obtain adequate additional 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 U.S., both of which were shipped to South Korea to enable the production of Scandium alloy golf shafts. Update?

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; however, these financial statements have not been reviewed by the Company’s auditors. 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 period ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending June 30, 2007. 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, 2006.

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:

	September 30, 2006	June 30, 2006
Negative working capital	\$ 3,241,634	\$ 2,662,558
Net loss	3,282,753	4,496,095
Accumulated deficit	20,475,231	17,212,576

As shown in the accompanying financial statements, during the three months ended September 30, 2006 the Company incurred a net loss of \$3,282,753 and cash utilized by operations during this period was \$484,118. For the fiscal year ended June 30, 2006, the Company realized a net loss of \$4,496,095 and generated cash of \$48,445 for operating purposes.

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

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ELEMENT 21 GOLF COMPANY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
September 30, 2006
(Unaudited)

NOTE 2 FUTURE OPERATIONS/GOING CONCERN (CONTINUED):

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 as well as the financings described below (See Notes 5 and 6). Absent these continuing advances, services and financings, 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 given 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 three months ended September 30, 2006 the Company issued 9,242,233 shares of its common stock to consultants for services rendered by them and recorded additional expense of \$854,788.

NOTE 3 RELATED PARTY ADVANCES:

During the three month period ended September 30, 2006, the Company repaid certain related parties a net amount of \$64,766.

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 of stock options and warrants outstanding, exercised and/or converted into common stock, unless the effect of such equivalent shares was anti-dilutive.

For the three months ended September 30, 2006 and 2005, the effect of stock options and other potentially dilutive shares were excluded from the calculation of diluted net loss per common shares, as their inclusion would have been anti-dilutive. Therefore diluted loss per share is equal to basic loss per share.

NOTE 5 CONVERTIBLE NOTES:

Bridge I Financing:

Between January 17 and March 6, 2006, the Company issued 10% Convertible Promissory Notes in the aggregate principal face amount of \$540,000 to 15 individual investors. In respect of notes totaling \$340,000 ("\$340,000 Notes"), each such investor also received three separate warrants (a warrant exercisable for one year, a warrant exercisable for two years, and a warrant exercisable for three years) to purchase shares of the Company's common stock up to an amount equal to the initial investment in the Notes at an exercise price to be determined based on a twenty day trading

average of shares of the Company's Common Stock prior to the date of exercise or from and after the date of an equity financing of at least \$5.0 million ("Equity Financing"), if that at all occurs, the price per share paid by participants in the equity financing. In respect of one note for \$200,000 ("200,000 Note"), the investor received 3,243,243 warrants (1/3 warrants exercisable for one year, 1/3 warrants exercisable for two years, and remaining 1/3 warrants exercisable for three years) with similar terms, except that the warrants are exercisable at an exercise price which is fixed at \$0.17 per share. All these warrants are subject to certain anti-

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ELEMENT 21 GOLF COMPANY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
September 30, 2006
(Unaudited)

NOTE 5 CONVERTIBLE NOTES (Continued):

dilution price adjustments. The Notes mature one year after issuance and accrue interest at an annual interest rate equal to 10% per annum, payable at maturity. The notes are convertible, at the option of the investor, into shares of Company's Common Stock, upon the consummation by the Company of an Equity Financing, at a price equal to the price per share paid by participants in the equity financing or in case there is not an equity financing the average twenty day trading average of shares of the Company's common stock in respect of the \$340,000 Notes and at \$0.17 per share in respect of the \$200,000 Note.

During the 3 months ended September 30, 2006, two notes totaling \$75,000 principal amount of the \$340,000 Notes and \$7,500 in related accrued interest were converted into 485,294 shares of common stock. As a result, the Company recorded \$50,073 of interest expense due to the beneficial conversion feature and expensed the remaining \$40,625 of unamortized discount to the notes into interest expense. In order to induce the note holders to convert their notes into stock, the Company offered certain incentives, which included registration rights for the warrants, payment in full of all interest and an extension of the warrant expiration terms by approximately seven months. As a result of the extension of the warrant expiration date, the Company recorded an additional \$122,215 in derivative expense. In addition, a \$20,000 note was cancelled during the quarter and the proceeds were returned to the investor and all entries related to the recording of the note were reversed, including \$33,549 of derivative liability and all accrued interest.

As of September 30 2006, all of the Bridge I financing warrants issued and conversion option were revalued and the liability was adjusted to \$606,300.

As of September 30, 2006 the company values the warrants and conversion option under the Black Scholes option-pricing model with the following assumptions: an expected life equal to the contractual term of the conversion option or warrants, as the case may be; no dividends; a risk free rate of return of 4.6% to 5.0% and volatility ranging from 12% to 184%.

Bridge II Financing:

Between May 5 and July 11, 2006, the Company issued additional 10% Convertible Promissory Notes in the aggregate principal face amount of \$623,000 to 20 individual investors (the "\$623,000 Notes"). Each such investor also received warrants, exercisable for one year, to purchase shares of the Company's common stock up to 150% of the investor's initial investment in the Notes at an exercise price equal to the lesser of (i) \$0.175, or (ii) the ten day trading average of shares of the Company's Common Stock prior to the date of exercise. All these warrants are subject to certain anti-dilution price adjustments. The Notes mature one year after issuance and accrue interest at an annual interest rate equal to 10% per annum, payable at maturity. The notes are convertible, at the option of the investor, into shares of Company's Common Stock at a conversion price equal to the lesser of (i) \$0.175, or (ii) the ten day trading average of shares of the Company's Common Stock prior to the date of conversion.

During the month of July, 2006, the Company issued additional 10% Convertible Promissory Notes in the aggregate principal face amount of \$120,000 to four additional investors (the "\$120,000 Notes"). The terms of the notes are identical to the \$623,000 Notes.

The Company has accounted for the above convertible notes and warrants as follows: under the provisions of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, ("SFAS 133") an embedded conversion option should be bifurcated and accounted for separately as a derivative instrument, unless the specific requirements for equity classification of the embedded conversion option, as stated in EITF 00-19: Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock ("EITF 00-19") are met. EITF 00-19 provides that an equity classification is appropriate if the settlement criteria set forth therein for such classification are met and that the additional conditions necessary for equity classification, set forth therein, are also met.

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The Company has analyzed the convertible notes and warrants under the \$120,000 Notes Financings and has made the following determination:

The conversion option and the warrants in respect of \$120,000 Notes Financings were determined to be a liability due to the tainting feature. The conversion option and warrants were valued at an amount less than the proceeds of the underlying notes. Therefore, the beneficial conversion option of the Notes and the value of the warrants of \$118,920 have been recorded as discount to the convertible notes with a corresponding credit to a derivative liability. The discount is being accreted on a straight-line basis over the maturity period of the notes.

The company values the conversion option and the warrants under the Black Scholes option-pricing model with the following assumptions: an expected life equal to the contractual term of the conversion option or warrants, as the case may be; no dividends; a risk free rate of return of 5.0% and volatility of 116%.

During the 3 months ended September 30, 2006, six notes totaling \$300,000 principal amount plus \$30,000 in accrued interest of the Bridge II financing were converted into 2,200,000 shares of common stock. As a result, the Company recorded \$150,722 of expense due to the beneficial conversion feature. In order to induce the note holders to convert their notes into stock, the Company offered certain incentives, which included registration rights for the warrants, payment in full of all interest and an extension of the warrant expiration term by approximately three months. There was no additional beneficial conversion feature to the incentives as the actual conversion rate exceeded to beneficial conversion rate at issuance. As a result of the extension of the warrant expiration date and setting of the conversion rate, the Company recorded an additional \$42,533 in derivative expense.

EITF 00-19 requires that the Company revalue the derivative instruments periodically to compute the value in connection with changes in the underlying stock price and other assumptions, with the change in value recorded as interest expense or interest income. Upon the earlier of the warrant exercise or their expiration date, the warrant liability will be reclassified into shareholders' equity. Until that time, the warrant liability will record at fair value based on the methodology described above. Changes in the fair value during each period will be recorded as other income or other expense. The Company similarly revalues the conversion option each reporting period with the change in value recorded as interest expense or interest income.

As of September 30 2006, all of the Bridge II financing warrants issued and conversion option were revalued and the liability was adjusted to \$226,155.

As of September 30, 2006 the company values the warrants and conversion option under the Black Scholes option-pricing model with the following assumptions: an expected life equal to the contractual term of the conversion option or warrants, as the case may be; no dividends; a risk free rate of return of 5.0% and volatility of 51%.

NOTE 6 PREFERRED SHARES:

On July 31, 2006 (the "Initial Closing Date"), the Company agreed to a \$4 million equity financing by entering into two Series B Convertible Preferred Stock Subscription Agreements (each a "Subscription Agreement" and collectively the "Subscription Agreements") with to investors (each a "Purchaser" and collectively, the "Purchasers"). Each Subscription Agreement provides for the sale by the Company to the applicable Purchaser of 117,648 shares of the Company's Series B Convertible Preferred Stock, par value \$0.10 per share (the "Series B Preferred Stock"), and warrants to purchase an aggregate of 17,647,059 shares of the Company's common stock, in exchange for and in consideration of an aggregate investment by each Purchaser of \$2 million in cash (each Purchaser's "Investment Amount"), which amount is to be invested by each Purchaser in two equal \$1 million installments, the first of which occurred on the Initial Closing Date and the second of which will occur at a subsequent closing to occur on or before November 30, 2006 (the "Subsequent Closing", and the date of such Subsequent Closing, the "Subsequent Closing Date"); provided that the

Company satisfies the necessary condition precedent to the Subsequent Closing as described below.

On the Initial Closing Date, each Purchaser invested \$1 million in the Company in return for 58,824 shares of Series B Preferred Stock and two warrants (the terms of which are more fully described below) to purchase an aggregate of 8,823,530 shares of common stock. The Subscription Agreements obligate each Purchaser to invest the remaining \$1 million of its Investment Amount (each Purchaser's "Additional Investment Amount") in the Company no later than November 30, 2006, subject only to the Company converting at least 80% of the aggregate outstanding principal amount evidenced by those certain convertible promissory notes issued by the Company between February 2006 and July 31, 2006 (collectively, the "Promissory Notes") into shares of common stock prior to the Subsequent Closing Date. In exchange for each Purchaser's

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Additional Investment Amount, the Company will issue to each Purchaser an additional 58,824 shares of Series B Preferred Stock and two additional warrants (the terms of which are more fully described below) to purchase an aggregate of an additional 8,823,529 shares of common stock. On October 31, 2006, both Purchasers agreed to waive any conditions to the Subsequent Closing.

On the Initial Closing Date the Company granted each Purchaser (i) one warrant to purchase 3,750,000 shares of common stock at an exercise price of \$0.22 per share in the event the warrant is exercised on or prior to July 31, 2007, and \$0.28 per share in the event the warrant is exercised on or after August 1, 2007, and (ii) one warrant to purchase 5,073,530 shares of common stock at an exercise price of \$0.28 per share (each an "Initial Warrant", and collectively, the "Initial Warrants"). Assuming that the conditions precedent to the Subsequent Closing are satisfied, on the Subsequent Closing Date, the Company will grant each Purchaser (i) one additional warrant to purchase 3,750,000 shares of common stock at an exercise price of \$0.22 per share in the event the warrant is exercised on or prior to July 31, 2007, which increases to \$0.28 per share in the event the warrant is exercised on or after August 1, 2007, and (ii) one additional warrant to purchase 5,073,530 shares of common stock at an exercise price of \$0.28 per share (each a "Subsequent Warrant", collectively, the "Subsequent Warrants" and collectively with the Initial Warrants, the "Warrants"). The Warrants expire on January 31, 2009. The exercise prices of the Warrants are subject to adjustment in the event of certain dilutive issuances, stock dividends, stock splits, share combinations or other similar recapitalization events. The Warrants may only be exercised by the payment of the applicable exercise price to the Company in cash, no cashless exercise is permitted. The terms of the Initial Warrants and the Subsequent Warrants are identical.

The Company has evaluated the Series B Preferred to determine if there are any embedded derivatives and determined that the Series B Preferred is more akin to debt than equity as it is not redeemable and carries voting rights. As such the Series B Preferred is considered perpetual and the option to convert into shares of Company's Common Stock is clearly and closely related to the host contract i.e. Series B Preferred and therefore need not be separated. The warrants associated with the issuance of some of the Series B Preferred have been determined to be equity in accordance with FAS 133 and EITF 00-19, as there are registration rights and associated liquidated damages. The warrants have been valued pieces of \$2,000,000 using the Black Scholes method. The value of the warrant has been recorded as discount to the Series B Preferred and has been charged as dividend expense. The Series B Preferred is evaluated further under EITF 98-5: Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios, ("EITF 98-5") and EITF 00-27: Application of Issue No. 98-5 to Certain Convertible Instruments, ("EITF 00-27") to determine if there is any beneficial conversion feature associated with the conversion. The Company calculated the beneficial conversion to was zero as the conversion price equaled the stock price on the date of the agreement.

The warrants in respect of the Preferred Stock Financing were determined to be a liability. The warrants were initially valued in excess of the proceeds of the Preferred Stock. As such, the value of the warrants was restricted to the amount of the proceeds of \$2,000,000 and has been recorded as warrant liability and is valued each quarter. As of September 30, 2006 the warrant liability was determined to be \$2,110,995.

As of September 30, 2006 the company values the warrants under the Black Scholes option-pricing model with the following assumptions: an expected life equal to the contractual term of the conversion option or warrants, as the case may be; no dividends; a risk free rate of return of 4.6% to 4.7% and volatility ranging from 121% to 183%.

NOTE 7 SHAREHOLDERS' DEFICIT PREPAID EXPENSE:

The Company issued 5,000,000 common shares to a consultant in advance of providing services. Since the prepayment was made in Company stock, the prepayment balance has been presented as a negative to Shareholders' Deficit. As the consulting services are rendered, the prepaid balance will be reduced.

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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-Q, 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. 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”).

Review by the Company’s Auditors

These statements have not been reviewed by the Company’s auditors.

Results of Operations

Three Months Ended September 30, 2006 and 2005

For the three months ended September 30, 2006 the Company, had revenue of \$1,227 and incurred costs of sales of \$14,823 and general and administrative expenses of \$1,169,893. Included in general and administrative expenses is a non-cash charge of \$854,788, representing the value of common shares issued for services provided by consultants. This resulted in a net loss of \$3,282,753, as compared with the three months ended September 30, 2005 in which the Company had revenue of \$22,620, incurred costs of sales of \$12,074 and general and administrative expenses of \$969,292 (including a non-cash charge of \$779,539 representing the value of common shares issued for services provided by consultants), resulting in a net loss also of \$958,746. The primary reason for the higher amount of general and administrative expenses during the three months ending September 30, 2006 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 September 30, 2006 of \$3,241,634. 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, 2006, we had a working capital deficiency of \$2,662,558. 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.

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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 and we may not be able to continue our business.

We have a history of substantial operating losses and an accumulated deficit of \$20,475,231 as of September 30, 2006 (\$17,216,576 as of June 30, 2006). We have historically experienced cash flow difficulties primarily because our expenses have exceeded our revenues. We expect to incur additional operating losses for the immediate near future. 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 September 30, 2006, as discussed above, we have no employees and utilize the services of consultants. Our consultants are bound by non-compete provisions; however, they are not otherwise prohibited from terminating their consulting relationship with the Company. The loss of the knowledge and management and industry expertise of any of these key consultants could have a material adverse impact on our future prospects, in particular Dr. Hearn and David Sindalovsky, who have played a key role in developing scandium technology for golf applications. In addition, once we are sufficiently capitalized, we will need to recruit new executive managers and hire employees to help us execute our business strategy and help manage the growth of our business. Competition for executive and other skilled personnel in the golf equipment industry is intense, and we may not be successful in attracting and retaining such personnel. Our business could suffer if we were unable to attract and retain additional highly skilled personnel or if we were to lose any key personnel and not be able to find appropriate replacements in a timely manner.

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 E21 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 further, 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

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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 cause service upgrade delays or 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 and also when updates and new products are released. 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.

The inability to obtain a sufficient amount of scandium or of scandium alloy would adversely affect our business.

Although we currently believe that we will continue to be able to have access to sufficient amounts of scandium or scandium alloy at feasible prices, there is no assurance of this, and any failure to be able to obtain a sufficient supply of scandium at reasonable prices would have a material adverse effect on our business.

The large number of shares eligible for public sale could cause our stock price to decline.

The market price of our common stock could decline as a result of the resale of the shares of common stock issuable upon conversion of our Series A Preferred Stock, Series B Preferred Stock and outstanding convertible promissory notes and the exercise of outstanding warrants or the perception that these sales could occur. These sales also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. The

conversion of these securities into common stock will also result in substantial dilution of the interests of our current stockholders.

Our stock price can be extremely volatile.

Our common stock is traded on the OTC Bulletin Board. There can be no assurance that an active public market will continue for the common stock, or that the market price for the common stock will not decline below its current price. Such price may be influenced by many factors, including, but not limited to, investor perception of us and our industry and general economic and market conditions. The trading price of the common stock could be subject to wide fluctuations in response to announcements of our business developments or our competitors, quarterly variations in operating results, and other events or factors. In addition, stock markets have experienced extreme price volatility in recent years. This volatility has had a substantial effect on the market prices of companies, at times for reasons unrelated to their operating performance. Such broad market fluctuations may adversely affect the price of our common stock.

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Trading on the OTC Bulletin Board may be sporadic because it is not a stock exchange, and stockholders may have difficulty reselling their shares.

Our common stock is quoted on the OTC Bulletin Board. Trading in stock quoted on the OTC Bulletin Board is often thin and characterized by wide fluctuations in trading prices, due to many factors that may have little to do with our operations or business prospects. Moreover, the OTC Bulletin Board is not a stock exchange, and trading of securities on the OTC Bulletin Board is often more sporadic than the trading of securities listed on the Nasdaq SmallCap.

If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board which would limit the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

Companies trading on the OTC Bulletin Board, such as us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, shares of our common stock could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

Our common stock is subject to the “penny stock” rules of the sec and the trading market in our securities is limited, which makes transactions in our stock cumbersome and may reduce the value of an investment in our stock.

The Securities and Exchange Commission has adopted Rule 15g-9 which establishes the definition of a “penny stock,” for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require that a broker or dealer approve a person's account for transactions in penny stocks and the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must, obtain financial information and investment experience objectives of the person and make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form sets forth the basis on which the broker or dealer made the suitability determination and that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the “penny stock” rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

We do not expect to pay dividends on our common stock.

We have not declared dividends on our common stock since our incorporation and we have no present intention of paying dividends on our common stock.

MANY OF THESE RISKS AND UNCERTAINTIES ARE OUTSIDE OF OUR CONTROL AND ARE DIFFICULT FOR US TO FORECAST. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED IN THE FORWARD-LOOKING STATEMENTS.

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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

During the three months ended September 30, 2006 the Company issued 9,242,233 shares of its common stock to consultants for services rendered by them and recorded additional expense of \$1,431,580. The Company also issued 117,586 shares of its Preferred B Stock shares in exchange for \$2 million in financing as well as the issuance of warrants (See Note 6 above). The shares and warrants were issued in reliance on exemptions from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

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
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<u>31.1</u>	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
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<u>31.2</u>	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
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32.1 Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002

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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

November 20, 2006

By: /s/ Nataliya Hearn
Nataliya Hearn, Ph.D.
President and Director

November 20, 2006

By: /s/ John Grippo
Chief Financial Officer