

ELEMENT 21 GOLF CO  
Form 10KSB  
October 12, 2007

**UNITED STATES  
Securities and Exchange Commission  
Washington, D.C. 20549**

**FORM 10-KSB**

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

For the fiscal year ended June 30, 2007

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-15260

**Element 21 Golf Company**  
(Name of Small Business Issuer in its Charter)

Delaware  
(State or Other Jurisdiction of incorporation or organization)

88-0218411  
(I.R.S. Employer I.D. No.)

**200 Queens Quay East, Unit #1, Toronto, Ontario, Canada, M5A 4K9**  
(Address of Principal Executive Offices)

Registrant's Telephone Number: **416-362-2121**

Not Applicable  
(Former name and former address, if changed since last Report)

Securities Registered under Section 12(b) of the Exchange Act: None.

Securities Registered under Section 12(g) of the Exchange Act: Common Stock, one-cent (\$0.01) Par Value

Check whether the issuer is not required to give reports pursuant to Section 13 or 15(d) of the Exchange Act.

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

Issuer's revenues for its most recent fiscal year: June 30, 2007 = \$228,599

As of October 4, 2007 there were approximately 110,553,554 shares of our common voting stock held by non-affiliates having a market value of approximately \$24,300,000 on such date. Without asserting that any director or executive officer of the issuer, or the beneficial owner of more than five percent of the issuer's common stock, is an affiliate, the shares of which they are the beneficial owners have been deemed to be owned by affiliates solely for this calculation.

As of October 4, 2007, there were 121,354,792 shares of common stock of the Issuer outstanding.

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**Element 21 Golf Company**

**10-KSB for the Year Ended June 30, 2007**

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**PART I**

**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-K, forward-looking statements also include:

- statements about our business plans;
- statements about the potential for the development and public acceptance of new products;
- 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 Operations” and “Description of Business” as well as in this Form 10-KSB 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-KSB. 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 affect actual results, whether as a result of new information, future events or otherwise. You should carefully review the risk factors described in other documents we file from time to time with the Securities and Exchange Commission, and also review our Quarterly Reports on Form 10-QSB.

**ITEM 1. DESCRIPTION OF BUSINESS**

**Business Development.**

Element 21 Golf Company (the “Company,” “Element 21,” “we,” “us” or terms of similar meaning) was originally formed as OIA, Inc., a Delaware corporation, in 1986. In 1992, the Company changed its name to Biorelease Corp., and was engaged in the business of biotechnology from 1992 through 1995. From mid-1995 through September, 2001, the Company sponsored a number of early-stage ventures. In June 2001, the Company changed its name from Biorelease Corp. to BRL Holdings, Inc.

In September, 2002, we acquired 100% of the outstanding common stock of Element 21 Golf Company, a Delaware corporation (“Element 21”), in exchange for 42,472,420 restricted shares of our common stock (“the Acquisition”). We also converted options to acquire 6,432,000 shares of Element 21 common stock into options to acquire 6,432,000 shares of our common stock. This Acquisition has been accounted for as a “reverse” acquisition using the purchase method of accounting, as the shareholders of Element 21 owned a majority of the outstanding stock of our Company

immediately following the Acquisition. Following the Acquisition, we changed our name to Element 21 Golf Company.

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During the fiscal year of 2007, the Company issued an aggregate of 14,210,326 shares of common stock to consultants as payment for services rendered.

### **Recent Events**

Between June 5, 2007 and June 10, 2007, the Company entered into Subscription Agreements with four individuals, each of whom is an accredited investor, pursuant to which the Company agreed to sell an aggregate of 2,356,471 shares of the Company's common stock, par value \$0.01 per share. The price per share under the Subscription Agreements is \$0.17. Each Investor also received a warrant to purchase shares of the Company's common stock in an amount up to the number of shares purchased. The exercise price of each warrant is \$0.19 and expires on May 31, 2008.

The Company has granted the Investors piggyback registration rights (subject to certain limitations).

On June 15, 2007, the Company consummated a \$2,000,000 equity financing by entering into two Series B Preferred Stock Subscription Agreements (each a "Series B Subscription Agreement" and collectively the "Series B Subscription Agreements") with each of Vladamir Goryunov and Clearline Capital, LLC (each a "Purchaser" and collectively, the "Purchasers"). Each Series B Subscription Agreement provides for the sale by the Company to the applicable Purchaser of 58,824 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 5,882,400 shares of the Company's Common Stock, \$.01 par value per share, in exchange for and in consideration of an aggregate investment by each of the Purchasers of \$1 million in cash.

### **Business of the Issuer:**

Element 21 was formed on September 18, 2002 to acquire partially-developed golf technology and to design, develop and bring to market golf club shafts and golf heads made from a patented scandium alloy exclusively licensed to the Company (the "E21 Alloy"). The active ingredient in the E21 Alloy is Scandium, which is element No. 21 in the Periodic Table of Elements. E21 Alloy shafts are believed to exhibit properties that out-perform titanium with a higher strength-to-weight ratio of up to 25% and a specific density advantage of 55%. The E21 Alloy is lighter, stronger and more cost effective than titanium. This advanced metal technology was originally developed in the 1970's in the former Soviet Union for military applications. Scandium alloys have been used in intercontinental ballistic missiles, jet aircraft, the Mir space station and most recently, in the International Space Station.

In September, 2002, Element 21 acquired from Dr. Nataliya Hearn, our current Chief Executive Officer, and David Sindalovsky, a consultant to the Company (the "Assignors"), the exclusive right to use, produce and sell the E21 Alloy for golf club shafts and golf heads. Although these rights do not cover all mixes of scandium alloy, the Company believes that any scandium alloy outside the range of its patent-protected rights cannot be used to produce golf club shafts or heads in an economically feasible manner. Upon completion of the Acquisition, the previous officers and directors of the Company resigned and Dr. Hearn became the Company's President/ CEO and a Director and Jim Morin and Gerald Enloe also became Directors. Mr. Morin also served as Vice President and Chief Financial Officer of the Company prior to his resignation from the Board on July 31, 2006.

The Company is attempting to commercialize scandium's use in the golf industry with a line of golf shafts and clubs. During the past year, the Company has developed an updated and improved product line using proprietary materials and production techniques, including drivers, irons, hybrids, shafts and golf bags.

In addition, the Company has also developed a technologically advanced line of fishing rods to serve the recreational and professional trophy fishing markets this past year, incorporating advanced nano technology and scandium metal alloy.

Key areas of management focus for the past year have included:

**A. Corporate Finance:**

The Company successfully raised \$6.4 million in equity financing during the latest fiscal year.

The Company consummated three separate \$2 million Series B Convertible Preferred Stock equity financings on July 31, 2006, November 30, 2006 and June 15, 2007 by entering into separate 3 separate Subscription Agreements with each of Clearline Capital, LLC and Vladimir Goryunov of \$1,000,000 each for a total of \$6 million. In June 2007 the Company sold 2,356,471 shares of unregistered common stock to 4 individuals for \$400,600. In addition, as of June 30, 2007, 8 individuals have converted their Convertible Notes and accrued interest of \$375,000 and \$37,500 into 2,685,294 common shares. Each of these transactions is described in more detail below.

**B. Retail Distribution and Sales:**

As the Company continues to move forward, we solidified our sales and marketing team to support sales in key distribution channels.

Industry veteran Bill Dey was appointed as Chief Operating Officer and Executive Vice President of the Company. Mr. Dey is an accomplished golf industry executive. His most recent success was as Senior Vice President & General Manager Global for Tommy Armour Golf. Under his stewardship Tommy Armour Golf experienced sales growth from \$400,000 to \$48 million in a three-year period.

Keith Kiendel was appointed Vice President of International Sales. Mr. Kiendel, ex-VP of global sales of Callaway, is bringing to the Company his name and contacts developed through his distinguished career in the golf industry.

Michael McDevitt was appointed Vice President of Sales - North America. Mr. McDevitt has over 18 years of sales, marketing, operations and customer service experience in the golf industry.

The management team has put together a network of 12 regional sales representatives, responsible for retail sales development. The Company is now positioned to accelerate development of retail sales, with the introduction of its EMC<sup>2</sup> Driver in the Fall of 2007. Drivers are vital to the success of a brand, being one of the most frequently shopped items and act as a halo product for the rest of a manufacturer's product line.

The sales team has started to make significant inroads to retail sales distribution, with smaller boutiques and 'green grass' pro-shops (on course PGA pro shops) now beginning to carry Element 21 golf clubs across the U.S. and Canada. Participating retailers now number over 250 accounts and continue growing. This builds on the historical success of the Company working with club fitting professionals who have adopted the use of Element 21's advanced Scandium metal alloy shafts for component club building.

Key retailers include:

- PGA Tour Super Stores - Georgia, Texas, Arizona and South Carolina
- Golfers' Warehouse - Connecticut, Massachusetts and Rhode Island
- Edwin Watts - Florida
- Golfsmith - Texas

The Company's line of award-winning EMC<sup>2</sup> irons and hybrid clubs is now available online from Golfsmith (www.golfsmith.com) one of the world's largest and most respected retailers of golf equipment.

Additionally, the Company signed a distribution agreement with Premium Golf Management Co. ("PGMC") to exclusively sell Element 21 shafts through the PGMC's extensive network of specialty dealers. This agreement builds Element 21's most extensive ground distribution channel to date by accessing PGMC's shaft specialty network of over 200 dealers throughout North America. PGMC currently distributes the renowned ACCRA brand of shafts.

### **C. Product Development:**

The Company has developed its second generation of golf clubs that further refines the application of Scandium metal alloy to the sport combining an elusive combination of high performance with a soft feel and very forgiving behavior for off-center hits. Advances have been made in various aspects of the club head design and manufacturing processes, further improving on their significant performance capabilities.

The product line available for sale now includes shafts, drivers, irons and hybrid clubs as well as golf bags. All clubs have been approved by the USGA as conforming to the rules of golf. This is a vital step, as manufacturers push the boundaries of what can be achieved with current technologies. The USGA has ruled that several high profile drivers do not conform, including Nike Golf's Sumo Squared, Callaway's Bertha 460, and specific models from Cleveland Golf and Cobra Golf.

Because of Element 21's advanced scandium metal alloy, the Company can deliver higher performance well within the specifications required by the USGA. Scandium metal alloy represents a significant leap forward in materials technology, one which the industry hasn't seen since the introduction of Titanium in 1995, fully 12 years ago.

With the introduction of its long-awaited EMC<sup>2</sup> Driver, the Company now believes it has a sufficient broad line of products to enter mainstream competition at the retail level. The Company pioneered advanced new manufacturing techniques with one of the world's leading golf manufacturers in order to create this revolutionary new driver.

The EMC<sup>2</sup> Driver has been tested by independent laboratories, and found to significantly outperform the most popular drivers by a significant margin. In fact, in recent robotic testing, Element 21's EMC<sup>2</sup> Scandium driver outperformed the top three selling Titanium drivers in the market place in both distance and accuracy. In off-center heel and toe hits, EMC<sup>2</sup> recorded an average carry dispersion of 8 feet, beating the competition by an unprecedented 263%, 288% and 338%. During distance testing the longest drive of the day was 274 yards recorded by EMC<sup>2</sup>, 29 yards longer than one of its competitors' longest drives.

The Company 's innovations have also been rewarded with awards and recognition from the industry, including significant editorial coverage in leading publications such as Golf Digest Magazine, Golf Today, Florida Golf Central and Golf Illustrated among others.

#### **D. Promotional Support:**

The Company has created promotional support to increase brand awareness and reinforce the unique nature of its proprietary Scandium Metal Alloy clubs and shafts. Lacking the resources to spend millions of dollars in traditional magazine and TV advertising, the Company executed a number of targeted promotions and leveraged creativity rather than flooding the market with ads and spending excessively to build product awareness and consumer trial.

**Golf Shot Around the World:** The most successful endeavor was the launch of an Element 21 golf ball into orbit by Russian cosmonaut Mikhail Tyurin. On the eve of Thanksgiving, November 22nd, 2006 at approximately 7:57 pm EST, Mikhail Tyurin successfully hit a golf ball off of the orbiting International Space Station, 220 miles above the earth, using an Element 21 gold-plated 5 iron. Billed as the world's longest drive, the golf ball continues to orbit earth, and has traveled over 130,532,303 miles as of September 19, 2007.

The publicity stunt garnered incredible attention around the world, generating millions of website hits worldwide, widespread television coverage and editorial coverage in over 100 major newspapers and magazines. Interest was particularly high within the golf industry, and was extremely successful in raising the Company's profile.

The Company received the received the prestigious ING (International Network of Golf Writers Association) Industry Honors Award for the Best PR/Campaign Event in 2006 in recognition of the Element 21 sponsored Golf Shot Around The World. The ING awards are generally considered to be the "Oscars" of the golf industry. ING is a non-profit, media-based networking organization whose mission is to bring golf media together with representatives from all walks of the golf industry to discuss issues, exchange information and improve communication.

**PGA Incentive Program:** PGA Magazine ([www.PGAmagazine.com](http://www.PGAmagazine.com)), with a circulation of over 45,000 top PGA Professionals in North America, featured a double page spread and Interactive CD-ROM insert in the June 2007 edition, which gave PGA professionals the opportunity to take part in the multi-level Stock Incentive Program, as part of the introduction of Element 21 Scandium golf equipment to the golf industry.

Subscribers were given the opportunity to learn about Element 21 Golf Company, and the advantages Scandium has over Titanium, Steel and Graphite, through an interactive CD-ROM. Becoming an Element 21 dealer entitled pro shops to receive \$200 worth of stock. The program required the purchase of an Element 21 Demo Pack; including 8 Irons, 4 Hybrids, and 1 stand bag for \$540 (50% off wholesale).

In addition, qualified PGA pro shops could earn up to 3% of their net Element 21 product sales in Company stock by the end of 2007.

**Retail Seeding Program:** In the Spring season of this past year, Element 21 selectively place its line of EMC<sup>2</sup> Scandium golf equipment in over 500 off course golf retail specialty stores and green grass pro shops. The program was designed to create trial and awareness of its new EMC<sup>2</sup> product line. The 500 Trial Equipment Sets consisted of 3 - PW EMC<sup>2</sup> Irons, 20 and 23 Degree EMC<sup>2</sup> Hybrids, and an Element 21 self standing bag.

Consumers were able to demo the full line of Element 21 clubs, and experience the properties and advantages that the Scandium metal alloy technology has to offer

**Demo Days:** The Company participated in roughly 3 dozen demo days in the early part of the 2007 season. These demo days were held at large retail outlets such as Nevada Bob's and PGA Tour Superstores, and important green grass (on course PGA shops) locations across the nation, as well as very successful participation at the Orlando PGA show, the premier PGA golf equipment event of the year.

**Consumer Product Test promotion:** This past season, consumers were given the opportunity to test the performance of Element 21's scandium metal alloy clubs by purchasing an Element 21 6 iron at an introductory price of only \$49.95 plus shipping and handling. The \$49.95 price tag came with a money back guarantee, or could be used towards a purchase of the complete EMC<sup>2</sup> set of irons.

**PGA Tour Presence:** The PGA tour represents the pinnacle of achievement in golf. Equipment manufacturers spend tens of millions of dollars in endorsements to have the top 'names' use their equipment. On the other hand, the tour pros need equipment they have complete confidence in to perform at their peak.

The Company recognized this fact, and, took the bold move to invite touring pros to try scandium metal alloy clubs. The Company sponsors a tour van and has a Company representative available at many of the PGA tour events.

The result is that Element 21 shafted clubs are now being played on all three men's Professional Golf Tours. Several players on the Nationwide, PGA and Champions Tours have requested that their clubs be fitted with Element 21 Eagle One Scandium Alloy shafts since the beginning of the 2007 season. Included in this mix are a 3-time US Ryder Cup Team Member and former US Ryder Cup Team Captain, and an 11-time winner on the PGA Tour, with 97 career Top 10 Finishes to his credit.

One of the top ten ranked players in the world has also switched to Element 21's Eagle One Scandium shafts. The player ranked high up on the PGA money list, and one of the most recognizable names in golf. As of August 2007, he had a total of 31 PGA tour wins, including two PGA Championships. He also has amassed 21 international wins and over \$53 million in PGA Tour winnings during his illustrious career.

#### **E. Launch of Fishing Equipment Line**

In June of this year, the Company began an expansion into recreational fishing equipment. On June 21, 2007, the Company entered into a non-exclusive, world-wide Patent License with Advanced Light Alloys Corporation aka ALA Corporation by which Element 21 licensed Advanced to make, use, and sell fishing equipment utilizing certain of Element 21's patents.

The Company hired top fishing rod designer, Ken Whiting to bring his revolutionary fishing rod designs to market. Ken Whiting has been named Senior Vice President of Product Development and Vice President of newly formed Element 21 tackle division, called Element 21 Fishing.

Whiting is responsible for the creation of several new rod lines to be marketed under the Element 21 Fishing brand as well as running the day to day operations of the new tackle division. Whiting, who is widely known and respected in the tackle industry for his innovation and technology, brings to Element 21 over 27 years of successful product design and development experience. Ken has now won five ICAST Best of Show's in the rod category out of the six years he has been in the tackle industry. ICAST is the world's largest sport fishing trade show.

This year ICAST celebrated 50 years of uniting the world's largest showcase of innovation in sport fishing gear and accessories under one roof. Employing advanced nano technology and Computer Generated simulation techniques, Element 21 introduced its newest product line at the 2007 ICAST show in July. The Company was rewarded with three first place equipment awards in the following categories:

1. Best salt water rod award
2. Best fly rod award
3. Overall best product award

The Company has signed a deal with 2007 Bassmaster Classic Champion Boyd Duckett to endorse Element 21 Fishing equipment. Boyd will be heavily involved in field testing all of Element 21's new rod lines, as well as providing technical assistance with other forms of advertising that Element 21 will be pursuing throughout the coming year.

In addition, Boyd will act as pro staff manager and will be actively involved in the selection of Element 21's Pro Staff. The Company is presently in the processing of ramping up production of the new line of rods.

#### **F. Operations and Management**

To date, the Company has operated solely through strategic consultants and without full-time employees.

Consultant Nataliya Hearn, PhD, who is our CEO and President, is based in Toronto, Canada, and oversees the Company's financing, operations, and engineering.

John Grippo, a consultant to the Company who was appointed as the Company's Chief Financial Officer in March, 2006, has over 15 years experience as a CFO for public and private companies ranging in size up to \$250 million in annual revenues.

Consultant David Sindalovsky is responsible for material sourcing, manufacturing and production path developments, and supervising the engineering and design of the golf club components.

Mark Myrhum, Senior Designer, has been providing club design solutions to the golf industry for more than 15 years. After an 8-year career as the Principal Engineer and Chief Designer for Wilson Golf, Mark Myrhum started MCM Golf, Inc. in 1996. His clients have included Wilson Sporting Goods, McHenry Metals, Carbite Golf, MasterGrip, Tour Edge and others.

As previously noted, the Sales team includes experienced industry veterans Bill Dey, Michael McDevitt, Vice President of Sales - North America and Keith Kiendel, Vice President of International Sales.

The Company believes that this structure is advantageous because it allows the Company to avoid having large marketing, administrative and development organizations in order to be responsive to fluctuations in the marketplace that have plagued other start-up golf companies.

Through strategic relationships the Company has been able to create vertical integration, which includes material sourcing, alloying, and proprietary manufacturing paths for production of semi-finished and finished golf components, engineering, design, and sales. A strategic supply agreement is in place with an affiliate of Kamensk-Uralsky Metallurgical Works Joint Stock Company, located in a number of locations in Russia, also known as OAO KUMZ. Under this agreement, concentrated scandium will be produced to the specification of the Company by the KUMZ affiliate. KUMZ will also provide ongoing technology transfer for the latest innovations in scandium alloys to the Company as they become available. KUMZ is a well-established, diversified producer of aluminum, aluminum alloys and products for aerospace, shipbuilding, automotive, and other industries. KUMZ is also the world's largest facility specializing in scandium alloy products. Work in scandium initially began 20-25 years ago with the development of scandium aerospace alloys for fighter aircraft.

The licensed manufacturing partners of the Company include:

- Yunan Aluminum, which is in the business of manufacturing precision tubing for outdoor recreation and sporting markets;
- OT-A Golf, which is one of the largest golf club manufacturers in the world, specializing in high end golf clubs, manufacturer for the top end OEMs such as Nike; and
- Pan Osprey, manufacturer of OEM golf equipment specializing in golf clubs manufactured under license for some of the leading brand names in golf. Pursuant to the Company's exclusive manufacturing agreement with its manufacturing partners, the Company provides the raw materials from which the manufacturers are trained and educated to produce the scandium line of clubs under the Element 21 brand name.

### **The Golf Industry**

The golf industry is a \$60 billion dollar market. Approximately \$5.5 billion each year is spent on golf equipment, with roughly half of that coming from the key U.S. market. Metal woods alone account for \$1 billion in sales.

The explosion of oversized clubs in 1992, titanium clubs in 1995, and multi-metal undersized clubs has proven that innovative designs and new materials promising improved performance are quickly embraced by the consumer and offer tremendous marketing advantages for the innovating companies. Companies such as Adams (with its patented 'Tight Lie®' fairway woods grew from \$2 million in sales to over \$100 million between 1995 and 1997.

However, since the introduction of titanium, there have been no significant introductions of new materials into the golf equipment market. Advances in shaft design/composition have been refinements of existing technology. It is common knowledge within the community of golf professionals that the most important part of the performance of any club is the shaft, and the easiest way to improve performance is with a better shaft quality.

From a retail perspective, there are 2,000 golf-only stores as listed by The National Golf Foundation's Directory of Golf Retailers: Off-Course Golf Retail Stores in the U.S. This does not include on-course stores for which The NGF has over 16,000 listed golf courses in the U.S. Additionally, there is a significant number of multi-line Sporting Goods Stores such as Dick's and Sport Authority that carry golf equipment. Total industry sales of equipment continue to be healthy.

### Benefits of Scandium Metal Alloy

Element 21's proprietary Scandium metal alloy golf products have outstanding potential in the industry based on the following factors:

- The results of player and robotic testing indicate Scandium's improved performance over leading titanium, steel and graphite clubs and shafts, providing increased distance and less dispersion. In essence, this allows longer more accurate results, which are impossible to achieve with current metals and manufacturing techniques.
- Unique features of Scandium metal alloy that can be engineered to provide Element 21's trademarked ShokBlok benefits, reduced vibration and a softer, more forgiving feel upon impact. This can translate into real world benefits in terms of reduced strain on the musculoskeletal system - a real concern of professional and avid amateur players.
  - 55% reduced density and 25% specific strength advantage over titanium alloys;
  - Scandium is softer than titanium providing superior feel and workability for the player;
  - Scandium is lower in cost and easier to fabricate than titanium;
  - 75% reduced density compared to stainless steel
  - Significant cost and performance advantages over composite materials such as graphite;
    - Excellent Fatigue Resistance
    - Weldable
- Extremely high consistency of manufacture to extremely tight tolerances. This feature, particularly in golf shafts, is of utmost importance in providing a set of clubs that play consistently, one to the other.
- Historically, many popular golf brands have achieved success based on new performance related features introduced to the game, such as Callaway's introduction of Titanium. The superior performance of Scandium metal alloy provides just such a performance improvement, which can easily be translated into benefits that are meaningful to consumers.

### **Element 21 Scandium Metal Alloy Shafts**

The market for golf shafts was estimated by Golfdatatech to be close to 30 million units in the US and 60 million units worldwide. Golfdatatech estimates that the size of the market for high performance premium shafts that the Company's Scandium shafts will initially be targeting represents approximately 27 million units worldwide.

Eagle One™ scandium metal alloy shafts are superior to the graphite and stainless steel shafts currently on the market. With its superior strength to weight ratio versus graphite and steel, and its unique metallurgical properties, Element 21's patented scandium technology simply outperforms other current golf materials. These shafts hit longer, more accurately and have better 'feel' at impact than any of the traditional materials. The shafts really deliver a 'true contact signature' at impact.

Scandium's inherent metallurgical properties combined with a proprietary 25 step seamless production process results in a shaft that is nearly perfectly symmetrical, unlike graphite and stainless steel shafts. Unknown to many, steel shafts are welded creating a seam or spine not visible to the eye. The difference in the tube wall thickness at the point of welding creates an imbalance, which affects the consistency of shots. Similarly, the production process for graphite shafts also results in inconsistencies through the shaft with similar associated problems. Element 21's advanced homogenous grain alignment process for scandium provides greater accuracy and improved consistency from club to club.

This introduces the prospect of using Scandium metal alloy shafts in place of the traditional steel shafts utilized by Tour professionals for their iron play, providing the consistency they require coupled with the benefits of improved performance over both Steel and Graphite shafted clubs.

Element 21's Eagle One Scandium Alloy shafts were tested against True Temper's Project X and Black Gold, Nippon's NS Pro 950, and Matrix Studio 64, which cover top steel and graphite shaft categories. Element 21 Scandium shafts outperformed every one of them in both distance and accuracy.

On average, the Element 21 Scandium Alloy shaft registered substantially longer distance than any other shaft it tested against, in some cases by as much as 16 yards at identical swing speeds, using identical 6 iron heads for the test.

While the added distance of the Element 21 Scandium Alloy shafts was impressive the dispersion/accuracy ratings it achieved were even more overwhelming. The Scandium Alloy shafts recorded dispersion/accuracy ratings as low as +/-1.33 feet from the target zone on center hits. This low dispersion rating showed that the Element 21 Scandium Alloy shafts are nearly 5 TIMES more accurate than their nearest competitor.

Less than 2 feet from the target zone on center hits means that the average golfer, with a less than perfect swing, can now afford to be just that -- less than perfect -- because the forgiveness of the Eagle One Scandium Alloy Shafts from Element 21 will keep them in more fairways and allow them to reach more greens in regulation than any other shaft on the market.

**ShockBlok™** : Concurrent with the development of the overall shaft design, the Company has developed a shock absorbing system under the trademark ShockBlok which redirects shaft vibration back into the club head, generating an added energy kick for extra distance and reducing the amount of vibration transfer to the player's hands. Golfing has a negative effect on the body. High shock energy transferred by the steel shafts to the player's hands during a round of golf creates fatigue. For frequent golfers, this can lead to stress injuries to a player's hands, wrist, elbows or shoulders, much like 'tennis elbow'. According to an analysis commissioned by a consultant to the Company, Dr. Howard Butler, along with two orthopaedic physicians, during a typical round of golf, the extra energy transmitted to the hands of a golfer using steel shafts is 300% higher than Scandium shafts. Over the last 5 years of consumer and Tour player testing, the Company experience has shown that most users of its shafts would immediately notice the superior shock absorption and that Scandium also contributes to a measurably superior feel as compared with steel and graphite clubs.

#### **Element 21 Scandium Metal Alloy Club Head Development Program**

The Company has completed the design and engineering process for a full line of clubs, from drivers to putters. Under the guidance of Mark Myrhum, David Sindalovsky, and the foremost golf club manufacturers, design improvements are being made to streamline mass production of the various golf components. Production models of these various clubs have now undergone testing and production tooling has been completed, and the products are currently in inventory.

All Element 21 scandium clubs have a shared feature; Element 21's trademarked True Contact Signature™. The club heads and shafts have been optimized to work as a fully "harmonized" golf club, with the heads and shafts designed to pass energy from the club head to the shaft at the same frequency, providing the golfer with a consistent feel, both "off the centerline" and "along the centerline". This gives the golfer a very tight, concise landing pattern resulting in a high level of control and repeatability.

#### **Element 21 Scandium Metal Alloy Drivers**

Perhaps the most significant achievement in terms of business milestones is the Company's recent introduction of its Scandium metal alloy Driver. Most recreational golfers spend more time and expense shopping for drivers than any other club. Company's reputations rest on the performance of their drivers. Element 21's driver, which literally outperforms the direct competition, provides a terrific platform to prove the benefits of the Company's innovative product line.

The new EMC<sup>2</sup> driver utilizes a proprietary Multi-Material, Scandium Cup Face (MMSCF) technology, which capitalizes on the unique properties of Element 21's Scandium Alloy and maximizes the drivers Moment of Inertia (MOI). The driver proved to be easier to manufacture, and corrected designs of the 2006 limited edition driver. At the center of the driver is a forged, Scandium Cup Face, designed to maximize energy transfer with the largest sweet spot and extreme low angle of dispersion, maximizes distance on drives from all areas of the driver face. In addition, the Scandium Cup Face has by design "softer" hitting surface, resulting in unprecedented, industry-low spin rates on center and off center drives. The result is what Element 21 believes to be the most accurate driver in golf by far.

The crown of the driver is a carbon composite and in turn, the light-weight aspect of this material allows Element 21 designers to strategically place more perimeter weight in order to increase club head stability. This has resulted in not only added distance but straighter drives. The sole of the multi-material driver is stainless steel, which adds weight where it is needed and provides exceptional wear resistance.

Additionally, the patent-pending louvered crown feature of the EMC<sup>2</sup> driver complements Scandium Face technology by stiffening the crown and focusing energy transfer along the centre line. The scandium face and louvered crown in the EMC<sup>2</sup> driver has created the most efficient energy transfer in the industry.

In robotic testing, the EMC<sup>2</sup> Scandium driver has outperformed both non-conforming and conforming drivers in distance and accuracy. The attached bar charts provide a summary of the independent test result on Scandium vs. Titanium. The EMC<sup>2</sup> Scandium Driver has outperformed Titanium drivers by as much as 29 yards in distance and 338% in accuracy.

In June of this year, the USGA added the Element 21 Scandium driver to its list of the drivers that conform to the rules of golf, a critical component for success of the club.

### **Element 21 Scandium Metal Alloy Irons**

In 2007, the Company introduced a new line of game improvement irons named EMC<sup>2</sup>. The irons were featured in major golf publications, including Golf Digest Magazine naming Element 21 EMC<sup>2</sup> Scandium Irons as “revolutionary”.

The EMC<sup>2</sup> two-piece construction irons (2-LW) are progressively offset to maximize trajectory and are considered the most accurate irons in golf.

The wide sole makes it easy to get proper launch angles from all lies and the thermoplastic elastomer backing provides an increased Moment of Inertia (MOI) for greater accuracy on off-center hits. EMC<sup>2</sup> iron heads are made with an ultra high strength steel face plate for increased ball speed while saving weight for optimizing Center of Gravity (CG).

The irons feature Element 21's Eagle One Scandium alloy shafts. Variable wall thickness and the alloy's high tensile strength results in improved accuracy and distance and a vibration dampening system called ShockBlok(TM) with 270% better shock attenuation than steel shafts that protects golfers' bodies, bones and joints.

### **Element 21 Scandium Metal Alloy Hybrids**

The EMC<sup>2</sup> hybrids are instantly recognizable much like their big brother Driver, due to their unique design features that include a louvered effect on the crown plate of the club. This creates a corrugated effect providing additional strength to the club head design and allows more freedom to move weight to strategic points within the sole of the club head to improve distance and accuracy.

Progressive offset of the club head facilitates a maximum trajectory to accommodate a wide range of players. The club head is designed with a low center of gravity, making it easier to hit balls in less than ideal lies.

As in other EMC<sup>2</sup> clubs, these feature the trademarked Contact Signature Tuned matching of scandium shafts with the club head.

These clubs are easier to hit off-center, and provide maximum consistency in play.

### **Sales and Marketing**

This product development effort has provided the Company with several sales and marketing options. These options include the sale of shafts and components to other original equipment manufacturers (OEMs) and to custom club fitters, in addition to the sale of Drivers, irons and hybrids via traditional retail distribution channels. Technology Licensing -- limited licenses to off-shore golf component manufacturers, is another viable sales development strategy.

Currently, Scandium shafts are available to club makers and fabricators through the PGMC distribution channels and several catalogues and web sites, including high profile participants such as Golfsmith.

The retail sales team is making good progress in developing traditional retail channels in North America, and the Company anticipates that these efforts will accelerate with the addition of the EMC<sup>2</sup> Driver to the product line, including high profile retail chains such as PGA Tour Super Stores, Golfers' Warehouse, Nevada Bob's, and Edwin Watts.

The international distribution is now managed by Keith Kiendel, ex-VP of global sales of Callaway. Mr. Kiendel is bringing to the Company his name and contacts developed through his distinguished carrier. Currently, the Company has signed a three year distribution agreement in South Korea and is in discussions with 19 other world regions.

As part of its sales initiative, the Company established a new call-in and customer service center, full assembly facilities, warehousing, and shipping and receiving capabilities. All business data generated can be integrated into a comprehensive computerized tracking / database management solution. This integrated system provides access to key information specific to running large-scale operations tailored to our needs as a golf company. The Company has created a very cost-effective solution that will be highly scalable in order to manage future growth.

### **Scandium Raw Material Supply**

The raw material that goes into the production of Scandium comes from scandium oxide, which has about 60% scandium metal content. Scandium oxide is used in the production of "master alloy," which is then added to nine other metals and other alloy ingredients to create a concentration of approximately 0.001% - 10.00 % scandium in the final alloy used in products. This is known as Scandium, which has the technical advantages needed for production of high performance equipment for sports, transportation, military and aerospace applications and is the subject of the Assignors' patents.

### **Status of Any Publicly Announced New Product or Service**

The Company's web site, at [www.e21golf.com](http://www.e21golf.com), contains its most recent press releases and financial reports as well as independent test results of the Company's shafts against the leading high-performance golf shafts in the world. For additional information or earlier press releases go to any website's financial bulletin board for Element 21 Golf Company (formerly BRL Holdings, Inc. (OTCBB EGLF)).

### **Competitive Business Conditions**

All major manufacturers of golf clubs, shafts and related equipment will be major competitors of our planned business operations, and all have greater resources, marketing capabilities and name recognition than we do. However, the Company believes that it would be impossible for a competitor to use scandium alloys in golf club production without infringing on the two US patents exclusively licensed to Element 21. The marketing and branding of Scandium has also received a high volume of world-wide media coverage, due to the upcoming golf shot from the International Space Station.

## **Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreements or Labor Contracts**

The Company does not hold direct title to any patents. However, when it acquired Element 21, it acquired the exclusive right to use, produce and sell a specified range of scandium alloy for golf club shafts and golf heads. Although these rights do not cover all mixes of scandium alloy, the Company believes that any scandium alloy outside the range of its patent protected rights cannot be used to produce golf club shafts or heads in an economically feasible manner. The golf applications under these patent rights acquired by us in the Element 21 Acquisition are U. S. Patent Nos. 5,597,529 issued on January 28, 1997, and 5,620,662, issued on April 15, 1997, initially filed by Ashurst Technologies, Inc. and acquired on January 7, 2001 by Nataliya Hearn and David Sindalovsky.

The Company has also signed a new license agreement with David Sindalovsky allowing it to enter the sport fishing equipment category.

### **Element 21 Fishing**

On June 21, 2007, Element 21 Golf Company entered into a non-exclusive, world-wide Patent License with Advanced Light Alloys Corporation aka ALA Corporation by which Element 21 licensed Advanced to make, use, and sell a line of fishing equipment utilizing certain of Element 21's patents.

The Company hired top fishing rod designer, Ken Whiting to bring his revolutionary fishing rod designs to market. Whiting is responsible for the creation of several new rod lines to be marketed under the Element 21 Fishing brand as well as running the day to day operations of the new tackle division.

Mr. Whiting's initial designs comprise the 'carrot stick' design in both casting and spinning rod variations. The CARROT STIX LTX Casting Rod measures 6' 9" with a parabolic action, is excellent for crankbaits, top water, and spinner baits and jerk baits.

The CARROT STIX LTX is a 6' 7" medium action spinning rod. Ideal for tubes, worms, grubs, and small crankbaits, etc. This rod is Excellent for walleye.

Element 21's "CARROT STIX" represents the latest in cutting edge technology. Nano level Cellulose Bio-Fibers are extracted from carrots, processed into a super high strength epoxy matrix and then this matrix is molded around a thin walled ultra high modulus graphite skeleton. When the two materials bond they create what we believe to be the finest rod blank ever made.

Another first for "CARROT STIX" is that a Finite Element Analysis (FEA) program was used to design the blank. By using FEA, we have been able to identify and remove "Hot Spots", or areas in the blanks that show a high propensity for breakage. This allows for the creation of a blank that is evenly stressed when loaded, thereby reducing its potential for failure. The blank is bonded to a fully exposed grip, for full contact with the rod. This set up is found on both spinning and casting models.

Consider the features of a molded “CARROT STIX” blank:

- Ultra light yet super strong
- Increased damping and reduced rod vibration for longer smoother casts
- Reduced blank ovalization
- Effortless casting and pinpoint accuracy
- Full blank loading for increased power
- Computer assisted blank design utilizing “Finite Element Analysis”

Each “CARROT STIX” is hand made using the highest quality components and meticulous attention to detail. “CARROT STIX’s” are special order only with a standard delivery time of 6 to 8 weeks dependent on model and demand. Each rod comes with a rod bag and Cordura over rod case.

The butts on each are also finished off with the same removable anodized aluminum butt cap, providing easy access to the rod’s weight port and allowing for personalized balancing to your own individual specs. Add new Caxin Lite guides with TiCH inserts, frames and our “Maximum Exposure” split reel seats and you will have one of the finest competition rods ever built.

The exceptional feel and performance was rewarded with the unprecedented capture of awards at this summer’s ICAST show, where the Company won a trifecta of awards;

- Best freshwater rod;
- Best salt water rod;
- Overall best product in show award.

In addition to the Carrot Stix, the Company has developed the Boyd Duckett Classic Gold rod. Co-designed by Boyd Duckett, 37th Bassmaster Classic World Champion and our own Ken Whiting the “Wizard of Rods”, our new Classic Gold series is a striking combination of versatility and performance.

From its high tech Multi-Modulus and filament wound Carbon Fiber NANO tube blank to its anodized aluminum weight port butt cap, the Classic Gold series is one fine piece of fishing equipment. Meticulous attention to detail is paid to the construction of each and every Classic Gold rod as noted by many inherent features which would typically, only be found on custom rods. For example, locking wraps on each single foot guide, guides with no ceramics to crack or fall out, our easy access weight port for personal balancing and our own in house “Maximum Exposure II” split reel seat for the ultimate in blank / hand contact and sensitivity. In terms of performance the Classic Gold series exhibits an extremely well balanced combination of lure presentation, castability and overall rod control.

The Boyd Duckett Edge Series features

- Super Set Filament Wound Butt Section and Ultra Responsive Multi-Modulus Tip Section
- Lite Weight Caxin guides with Double Swaged TiCH Inserts and black stainless frames
- Ultra Lite Graphite Filled Split Reel Seats on both Casting and Spinning Models
- Thermalon Velvet Touch Split Grip for Extra Grip and Comfort
- II New TiCH Non-Obtrusive hook keeper
- Direct Access Butt Grip Weight Port for Easy Balancing to Personal Specifications.

In the Edge Series, Element 21 brings you a series of rods with that custom touch you’ve always wanted at over the counter pricing. The blank incorporates the latest advances in filament winding and pairs it up with a highly responsive Multi- Modulus tip that provides for a superior combination of hook set, lure presentation and sensitivity.

The Edge features today's popular split grip fashioned from our new "Velvet Touch" Thermalon for extra grip, comfort and thermal protection in cold weather. Ultimate sensitivity at the reel is provided by our "Maximum Exposure" split reel seat which exposes more blank when palming than any other reel seat on the market. Add to this a set of Caxin's new double swaged TiCH inserted lite guides, a hook keeper that allows you to hook up without removing your soft baits and a blank direct weight port which enables you to balance your rod to your own personal specifications without the addition of an external weight system.

The Company is currently developing relationships with OEM manufacturers to produce this exceptional line-up of innovative products. Ken Whiting has solid relationships with high end fishing rod manufacturers, to ensure a high level of quality control to maintain the highest standard in the final products.

With the incredibly high profile of our products introduction at ICAST, coupled with the product endorsement by famous angler Boyd Duckett, we anticipate that setting up retail distribution will proceed relatively smoothly.

### **Effects of Existing or Probable Governmental Regulations**

#### ***Penny Stock***

Our common stock is "penny stock" as defined in Rule 3a51-1 of the Securities and Exchange Commission ("SEC"). Penny stocks are stocks:

- with a price of less than five dollars per share;
- that are not traded on a "recognized" national exchange;
- whose prices are not quoted on the NASDAQ automated quotation system; or
- in issuers with net tangible assets less than \$2,000,000, if the issuer has been in continuous operation for at least three years, or \$5,000,000, if in continuous operation for less than three years, or with average revenues of less than \$6,000,000 for the last three years.

Section 15(g) of the Exchange Act and Rule 15g-2 of the Securities and Exchange Commission require broker/dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before making any transaction in a penny stock for the investor's account. You are urged to obtain and read this disclosure carefully before purchasing any of our shares.

Rule 15g-9 of the Securities and Exchange Commission requires broker/dealers in penny stocks to approve the account of any investor for transactions in these stocks before selling any penny stock to that investor. This procedure requires the broker/dealer to:

- get information about the investor's financial situation, investment experience and investment goals;

- reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor can evaluate the risks of penny stock transactions;
- provide the investor with a written statement setting forth the basis on which the broker/dealer made his or her determination; and
- receive a signed and dated copy of the statement from the investor, confirming that it accurately reflects the investors' financial situation, investment experience and investment goals.

Compliance with these requirements may make it harder for our stockholders to resell their shares.

You may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

### **Small Business Issuer**

The integrated disclosure system for small business issuers adopted by the SEC in Release No. 34-30968 and effective as of August 13, 1992, substantially modified the information and financial requirements of a "Small Business Issuer," defined to be an issuer that has revenues of less than \$25,000,000; is a U.S. or Canadian issuer; is not an investment company; and if a majority-owned subsidiary, the parent is also a small business issuer; provided, however, an entity is not a small business issuer if it has a public float (the aggregate market value of the issuer's outstanding securities held by non-affiliates) of \$25,000,000 or more. We are deemed to be a "small business issuer."

### **Research and Development Expenses during Past Two Fiscal Years**

During the fiscal years ended 2007 and 2006 there were no research and development costs incurred by the Company. To date, the Company has relied on its consultants and their existing infrastructure to develop its initial products and has reflected these costs as operating costs. We anticipate incurring spending related to research and development during fiscal year 2008 when such costs will be expensed as incurred.

### **Number of Employees**

As of October 4, 2007 we have no employees with all individuals instead engaged as consultants to the Company. The key individuals include:

- Nataliya Hearn, PhD, our CEO and President, is based in Toronto, Canada and oversees day to day operations of the Company including financing, administration and engineering.
- John Grippo, CPA, our CFO, is based in Scarsdale, New York, and oversees the financial aspects of the Company.

- Bill Dey, COO and Executive Vice President, is based in Toronto, Canada, and operates as the Company's General Manager and is responsible for all aspects of the Company's sales and marketing strategy.
- Keith Kiendel, VP of International Sales, is based in Toronto, Canada and is responsible for setting up of international distribution accounts for Element 21.
- Michael McDevitt, VP of North American Sales, is based in Chicago and is responsible for managing commission sales reps, setting up and managing retail accounts across North America.
- David Sindalovsky, based in Toronto, Canada, is responsible for material sourcing, manufacturing, engineering and the Company's relationship with strategic partners in Asia and Russia.
- Mark Myrhum operates as the company's Senior Designer and is the main liaison with manufacturers located in China.

· Andy Harris is responsible for PGA tour presence and PGA player relations.

This consultant structure allows the Company to avoid having large fixed-cost marketing, administrative and development organizations in order to be responsive to fluctuations in the marketplace that have plagued other start-up golf companies.

## **ITEM 2. DESCRIPTION OF PROPERTY**

The Company's offices are located at 200 Queens Quay East, Unit #1, Toronto, Canada. The space is leased from Queens Quay Investments, Inc. pursuant to a three year lease ending April, 2009. The lease calls for monthly payments of \$1,927 plus GST for finished offices measuring a total of approximately 1,927 square feet.

In order to have a presence in the US, the Company also shares office space in Jersey City, New Jersey for which it pays \$250 per month in rent under a month to month agreement.

The Company's inventory is currently managed by Horton's and Sons, located in Markham, Canada. Horton's manages Element 21's call-in and customer service center (including credit checks), and also provides complete assembly facilities, warehousing, and shipping and receiving capabilities.

## **ITEM 3. LEGAL PROCEEDINGS**

We are not a party to any pending legal proceedings, our property is not the subject of a pending legal proceeding and to the knowledge of our management, no proceedings are presently contemplated against us by any federal, state or local governmental agency.

Further, to the knowledge of our management, no director or executive officer is party to any action in which any has an interest adverse to us.

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

None

**PART II****ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS****Market Information**

There has never been any established trading market for our shares of common stock and there is no assurance that a trading market will develop. Our common stock is presently quoted on the Over-the-Counter Bulletin Board (“OTCBB”) of the National Association of Securities Dealers under the symbol “EGLF” as reflected below. No assurance can be given that any market for our common stock will develop in the future or be maintained. If an established trading market ever develops in the future, the sale of our common stock pursuant to Rule 144 of the Securities and Exchange Commission, or otherwise, by members of our management or others may have a substantial adverse impact on any such market.

The range of high and low bid quotations for our common stock during each of the last two fiscal years and the most recent interim quarter is shown below. Prices shown in the table represent inter-dealer quotations, without adjustment for retail markup, markdown, or commission, and do not necessarily represent actual transactions.

	<b>High</b>	<b>Low</b>
<b>Fiscal Year Ended June 30, 2006</b>		
First Quarter	\$ 0.14	\$ 0.04
Second Quarter	\$ 0.11	\$ 0.06
Third Quarter	\$ 0.43	\$ 0.08
Fourth Quarter	\$ 0.24	\$ 0.14
<b>Fiscal Year Ended June 30, 2007</b>		
First Quarter	\$ 0.20	\$ 0.16
Second Quarter	\$ 0.25	\$ 0.17
Third Quarter	\$ 0.20	\$ 0.16
Fourth Quarter	\$ 0.19	\$ 0.14
<b>Interim Period Ended October 4, 2007</b>		
	\$ 0.22	\$ 0.12

**Holdings**

The number of record holders of our common stock as of October 4, 2007 was approximately 1,918.

**Dividends**

We effected a two-for-one stock split in the form of a stock dividend on all our outstanding shares of common stock (including shares issued in connection with the Acquisition) on the record date of October 4, 2002, which also resulted in similar adjustments to all of our shares of common stock underlying our outstanding options. Except as otherwise indicated herein, all share and per share data reflected in this Annual Report has been retroactively restated to reflect this dividend.

We also resolved to effect, by exemption from registration under the Securities Act of 1933, as amended (the "Securities Act") or by registration under the Securities Act, a spin-off of our interests in AssureTec Holdings, Inc. to our shareholders of record as of October 4, 2002 (excluding shareholders who received shares of the Company's common stock in connection with the acquisition of Element 21). The Company currently is preparing the documentation necessary to implement this distribution.

At a Special Meeting of the Company's stockholders on May 8, 2006, the stockholders approved a resolution unanimously adopted by the Board of Directors to authorize a series of 19 separate amendments to the Company's Certificate of Incorporation in order to effect a reverse stock split of the outstanding shares of the Company's common stock at each ratio of a minimum of 1 for 2, a maximum of 1 for 20, and at a ratio equal to 1 for each whole number between 2 and 20. The Board of Directors was thereby given the discretion to unilaterally determine an appropriate stock split ratio within a range of 1 for 2 and 1 for 20 and to give effect to the corresponding amendment of the Company's Certificate of Incorporation which effects such stock split and to abandon each other amendment adopted relating to the reverse stock split. No reverse split has been implemented as of the filing date. Because the aggregate number of shares of common stock would be reduced as a result of the reverse stock split, if and when effected, the monetary per share value of each remaining share of common stock would increase and we anticipate that the number of holders of the Company's common stock would decrease as a result of fractional shares created by the reverse stock split. Consequently, any cash dividends that were to be paid per share would increase proportionately on a per share basis as compared to the cash dividend paid prior to the reverse stock split.

We have not paid any cash dividends on our common stock, and it is not anticipated that any cash dividends will be paid in the foreseeable future. The Board of Directors intends to follow a policy of using retained earnings, if any, to finance our growth. The declaration and payment of dividends in the future will be determined by the Board of Directors in light of conditions then existing, including our earnings, if any, financial condition, capital requirements and other factors.

### **Recent Sales of Unregistered Securities**

During the three months ended September 30, 2005, the Company issued an aggregate of 11,281,265 shares of common stock to twenty-four consultants in consideration for services rendered in the aggregate amount of \$779,539. The Company also sold warrants to purchase 1,000,000 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 \$0.15 per share. 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.

In February 2006, the Company issued a warrant to purchase 1,000,000 shares of the Company's common stock at a price of \$0.01 as part of the Company's repayment of outstanding indebtedness to a creditor of the company. The warrants vested immediately and are exercisable for a three year period from the date of issuance.

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. 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 entitling the investor to invest an amount equal to the investor's investment in the Notes in additional shares of the Company's common stock subject to certain 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. During the year ended June 30, 2007, notes totaling \$75,000 plus accrued interest of \$7,500 were converted into 485,294 shares of common stock and two \$20,000 notes and all related warrants were cancelled and the proceeds returned to the investors. \$225,000 of the notes matured and were paid, along with the requisite accrued interest of 10% per annum and the original one year warrants expired without being exercised. The remaining \$200,000 of notes were extended to July 15, 2007, including the rights to convert the note and the one year warrant. Shortly before June

30, 2007, the holder of the note gave up all his warrants in return for early repayment of the note.

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Between May 5 and June 29th, 2006, the Company issued 10% Convertible Promissory Notes in the aggregate principal face amount of \$623,000 to 16 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 entitling the investor to invest an amount equal to 150% of the investor's investment in the Notes in additional shares of the Company's common stock subject to certain 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. During the year ended June 30, 2007, notes totaling \$300,000 in principal plus \$30,000 in accrued interest were converted into 2,200,000 shares of common stock. During the month of July, 2006, the Company issued additional 10% Convertible Promissory Notes in the aggregate principal face amount of \$180,000 to 6 additional investors. The terms of the notes and warrants are identical to the \$623,000 Notes.

In February 2006 the Company issued an aggregate of 2,113,556 shares of newly designated Series A Convertible Preferred Stock in order to settle outstanding debts owed to officers and consultants of the Company (a portion of which were unpaid consulting fees) in the aggregate amount of \$2,113,556. The shares of Series A Convertible Preferred Stock are convertible at the option of the holder at any time after issuance. Each share of Series A Convertible Preferred Stock is convertible into that number of shares of common stock of the Company as is equal to the original issue price of shares of Series A Convertible Preferred Stock, or \$1.00, divided by the conversion price which is initially equal to \$0.255 and is subject to adjustment in certain cases. Each share of Series A Convertible Preferred Stock carries with it the right to fifty votes.

On July 31, 2006, the Company sold an aggregate of 117,648 shares of Series B Convertible Preferred Stock (the "Series B Preferred Stock") and issued warrants to purchase an aggregate of 17,647,060 shares of common stock for an aggregate purchase price of \$2,000,000. The Company paid 15% commissions to Futon Investment Ltd. in connection with its issuance of shares of Series B Preferred Stock and the accompanying warrants. The shares of Series B Preferred Stock are convertible into shares of Common Stock at the election of the Purchasers. Each share of Series B Preferred Stock is initially convertible into 100 shares of Common Stock, with such conversion ratio subject to adjustment in the event of dilutive issuances, stock splits, combinations, certain dividends and distributions, and mergers, reorganizations or other similar recapitalization events. The warrants may be exercised in whole or in part for shares of Common Stock by payment by the Purchasers of the applicable exercise price in cash prior to the expiration of the warrants on January 31, 2009. On November 30, 2007 the Company sold an aggregate of 117,648 shares of Series B Convertible Preferred Stock (the "Series B Preferred Stock") and issued warrants to purchase an aggregate of 17,647,060 shares of common stock for an aggregate purchase price of \$2,000,000. The terms of the Series B Preferred Stock and the warrants were identical to the sale on July 31, 2006.

Between June 5, 2007 and June 10, 2007, the Company entered into Subscription Agreements with four individuals, each of whom is an accredited investor, pursuant to which the Company agreed to sell an aggregate of 2,356,471 shares of the Company's common stock, par value \$0.01 per share. The price per share under the Subscription Agreements is \$0.17. Each Investor also received a warrant to purchase shares of the Company's common stock in an amount up to the number of shares purchased. The exercise price of each warrant is \$0.19 and expires on May 31, 2008. The Company has granted the investors piggyback registration rights (subject to certain limitations).

On June 15, 2007, the Company consummated a \$2,000,000 equity financing by entering into two Series B Preferred Stock Subscription Agreements (each a “Series B Subscription Agreement” and collectively the “Series B Subscription Agreements”) with each of Vladamir Goryunov and Clearline Capital, LLC (each a “Purchaser” and collectively, the “Purchasers”). Each Series B Subscription Agreement provides for the sale by the Company to the applicable Purchaser 58,824 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 5,882,400 shares of the Company’s Common Stock, \$.01 par value per share, in exchange for and in consideration of an aggregate investment by each of the Purchasers of \$1 million in cash.

All of the above securities issuances were made upon reliance on the exemption from the Securities Act registration requirements contained in Section 4(2) of the Securities Act of 1933 and pursuant to Regulation D promulgated thereunder.

### Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	Equity Compensation Plan Information		Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column)*
	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	
Equity compensation plans approved by security holders	0	N/A	6,063,135
Equity compensation plans not approved by security holders	14,752,313	\$ 0.072	N/A
<b>Total</b>	<b>14,752,313</b>		<b>6,063,135</b>

\* At June 30, 2007

## **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION -**

### **Overview**

Fiscal 2007 has continued to be one of transition for the Company - from development stage status to a meaningful level of sales of actual products. As of the beginning of fiscal 2006, the Company required financing in order to produce inventory necessary to supply retail channels in North America. Through July 2007, the Company was able to secure funding from several sources in the aggregate amount of approximately \$7 million. These financings allowed the Company to continue its efforts to develop distribution channels for its upcoming products. The Company has established a sales structure with internal and field sales representatives, who manage current sales and have been actively building the foundation of sales and distribution systems for the Company's products. To date, the Company has introduced its products through retailers, green grass (on course PGA shops) sales, golf shows, catalogue sales, web-sales, and PGMC and their shaft distribution sale channels. The Company needs to increase consumer awareness of the scandium advantages in golf, in order to increase the demand for its sales. Subject to raising necessary additional funds (of which there can be no assurance), the Company intends to launch an infomercial on the Golf Channel in order to explain the advantages of scandium over titanium, steel and graphite.

### **Fiscal 2007 Compared to Fiscal 2006**

During fiscal year 2007, we had \$228,599 in revenues as compared to \$51,569 in revenues during fiscal year 2006. During fiscal year 2007, our costs of sales were \$191,628 compared to \$25,722 for the prior year. During fiscal year 2007, our general and administrative costs were \$7,127,430. These general and administrative costs primarily consist of marketing costs, including trade shows, legal and accounting expenses necessary to maintain the Company's reporting requirements to be a publicly traded entity, and consulting fees which was satisfied primarily through the issuance of our common stock. During fiscal 2006, general and administrative expenses aggregated \$3,737,896 and consisted primarily of marketing costs, including trade shows, legal and accounting expenses necessary to maintain the Company's reporting requirements to be a publicly traded entity, and consulting fees which was satisfied primarily through the issuance of our common stock. The increase in general and administrative expenses in fiscal 2007 over 2006 is due to the addition of personnel, the payment of compensation for a full year to existing personnel, the increase in the stock price for consultants paid in common shares and an increase in consultants in 2007. Net loss for fiscal 2007 was \$4,002,650 (\$0.04 per share) as compared to a net loss of \$4,496,095 (\$0.05 per share) for fiscal 2006. The decrease in the net loss is largely attributable to the recognition of income of approximately \$4.3 million in fiscal 2007 as compared to expense of approximately \$392,000 in fiscal 2006 as a result of fair value adjustments of common stock warrants (derivatives) issued by the company. Additionally, the marketing costs associated with the launch of the golf ball into the Earth's orbit in November 2006, and print media advertising in various golf magazines significantly increased the Company's marketing expenses in fiscal 2007.

### **Liquidity and Capital Resources**

From our inception through the end of fiscal year 2007, our primary source of funds has been the proceeds from private offerings of our common stock and advances from Dr. Hearn, other consultants, related parties and loans from stockholders. The Company's need to obtain capital from outside investors is expected to continue until we are able to achieve profitable operations, if ever. There is no assurance that management will be successful in fulfilling all or any elements of its plans. The failure to achieve these plans will have a material adverse effect on our Company's financial position, results of operations and ability to continue as a going concern. As noted in our auditor's report dated October 3, 2007, there is substantial doubt about our Company's ability to continue as a going concern.

During fiscal 2007, we utilized \$3,994,796 for our operations compared to having generated \$48,445 from operations in fiscal 2006. The increase was due primarily to spending on sales and marketing. For fiscal 2007, funds generated from financing sources aggregated \$5,556,519 compared to \$883,148 generated in fiscal 2006. During fiscal 2007, the

Company received \$6,000,000 and \$400,600 and \$180,000 from the issuance of preferred stock, common stock and convertible notes and repaid \$493,000 in convertible notes, versus receiving \$1,163,000 in fiscal 2006 from the issuance of convertible notes. The Company reduced fixed asset purchases from \$669,522 in fiscal 2006 to \$73,764 in fiscal 2007 as the need for tooling reduced.

### **Recent Accounting Pronouncements affecting the Company**

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which, among other things, requires applying a "more likely than not" threshold to the recognition and de-recognition of tax positions. The provisions of FIN 48 are effective for years beginning after December 31, 2006. We are currently evaluating the impact of adopting FIN 48 on the financial statements, but we do not expect its adoption to have a significant transition effect.

In October 2006, the SEC staff published SAB No. 108, "*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*". SAB 108 addresses quantifying the financial statement effects of misstatements and considering the effects of prior year uncorrected errors on the statements of operations as well as the balance sheets. SAB No. 108 does not change the requirements under SAB No. 99 regarding qualitative considerations in assessing the materiality of misstatements. The Company adopted SAB No. 108 during the fourth quarter of fiscal year 2007, and the adoption had no impact on its results of operations or financial condition as of and for the fiscal year ended June 30, 2007.

In October 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*", which provides guidance for using fair value to measure assets and liabilities. The pronouncement clarifies (1) the extent to which companies measure assets and liabilities at fair value; (2) the information used to measure fair value; and (3) the effect that fair value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. SFAS No. 157 is effective for the Company as of July 1, 2008. Our adoption of SFAS 159 is not expected to have a material impact on our results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Our adoption of SFAS 159 is not expected to have a material impact on our results of operations or financial position.

### **Critical Accounting Policies and Estimates**

The following estimates were used in the preparation of our Company's Consolidated Financial Statements had a significant effect on those statements.

Our Company has established a 100% reserve against our deferred tax asset reducing the carrying value to \$0 at June 30, 2007 and 2006.

Our Company has estimated that the depreciable lives of our fixed assets range from two to five years and the residual value to be zero.

Our Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on a review of the current status of trade receivables. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change.

Our Company has permanently written down its inventory to the lower of cost or net realizable value. As a result, a portion of the inventory has been valued at zero and another portion has been valued at an amount that management believes approximates the sales value less an ordinary profit. The write down has been included in cost of sales.

### **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 \$21,215,226 as of June 30, 2007, of which \$3,261,401 represents development stage losses and \$17,953,825 represents accumulated losses. For the year ended June 30, 2007, our net loss was \$4,002,650. 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 discussed above, as of June 30, 2007, 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. 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. 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 Element 21 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.

***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. 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. 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 affect 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.

***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 15c-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. The Company is prohibited from paying dividends on common stock as long as there are any unpaid accrued dividends due to the Series B Convertible Stock shareholders.

**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.**

**ITEM 7. FINANCIAL STATEMENTS**

The Consolidated Financial Statements and schedules that constitute Item 7 are attached at the end of this Annual Report on Form 10-KSB.

**ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

**ITEM 8A. CONTROLS AND PROCEDURES**

We maintain “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15(d)-15(e)) designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods. Our chief executive officer and chief financial officer, with the participation of our management, have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2007. Based upon that evaluation, the chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic filings with the Securities and Exchange Commission.

To date, and during the first quarter of fiscal year 2008, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**ITEM 8B. OTHER INFORMATION**

None.

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**PART III****ITEM DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;  
9. COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT****Identification of Directors and Executive Officers**

The following table sets forth the names and the nature of all positions and offices held by all directors and executive officers of our Company for the fiscal year ended June 30, 2007, all of whom are consultants to the Company and not employees, and the period or periods during which each such director or executive officer has served in his or her respective positions.

<b>Name</b>	<b>Age</b>	<b>Position with the Company</b>	<b>Date of Election or Designation</b>
Nataliya Hearn, Ph.D.	40	Chairman, President, CEO and Director	October 4, 2002
John Grippo	51	CFO	March 1, 2006
Gerald Enloe	59	Director, Chairman (RESIGNED JAN 07)	October 4, 2002
Sergei Bedzouik, Ph.D	50	Director	Jan 20, 2007
Mary Bryan	55	Director	March 15, 2007
Benton Wilcoxon	57	Director	June 22, 2007

**Term of Office**

The term of office of the current Directors shall continue until the annual meeting of our stockholders, which is scheduled in accordance with the direction of the Board of Directors. The annual meeting of our Board of Directors immediately follows the annual meeting of our stockholders, at which officers for the coming year are elected.

**Business Experience**

Dr. Nataliya Hearn, Ph.D., P.Eng. — Chairman, President and CEO

Dr. Hearn has extensive experience in technology transfer, evaluation and acquisitions. Dr. Hearn has been responsible for the development, design and production of the Element 21 high performance golf products. Dr. Hearn has been able to attract the current team of experts to take the company to the next level of its growth. Dr. Hearn holds a Ph.D. in Civil Engineering from University of Cambridge and is a registered professional engineer.

Benton Wilcoxon – Director

Mr. Wilcoxon specializes in the business development, structuring and commercialization of advanced technologies, new materials and processes. He is Chairman and Chief Executive Officer of Composite Technology Corporation, an Irvine CA public company that develops, manufactures and sells high performance electrical transmission and renewable energy generation products. Mr. Wilcoxon is a Director and Chief Technology Consultant of Magnesium Alloy Corporation, a Canadian company, with cost-effective Russian and Ukrainian magnesium processing technologies. He was also one of the founders of Ashurst Technology Corporation in 1991, and was instrumental in bringing Scandium alloys to Western markets.

Mary Bryan – Director

Ms. Bryan brings to Element 21 a multi-faceted 30 year background in the golf industry. Her experience includes 25 years on the LPGA and Senior LPGA Tours, TV/radio golf announcing on major networks, and teaching and conducting golf clinics in the U.S. and around the world. She has served as a tour representative for various companies and has been involved in numerous charity golf fundraisers. Ms. Bryan also has experience with public speaking and working with the media. Ms. Bryan has performed over 300 golf telecasts for CBS, NBC and ESPN and was the first woman to cover a men’s major golf event. Ms. Bryan currently is a consultant for Links Magazine and Bob Betterton Sports Marketing, and is a representative for State Farm Insurance. Her teaching experience includes the position of Administrator and Teacher at Carol Mann Golf Schools for Golf Magazine and as Assistant Golf Professional at Paradise Hills Country Club in Albuquerque NM.

Dr. Sergei Bedziouk—Director

Dr. Beziouk has a long and distinguished scientific career, working within the Aerospace and advanced science arenas. Dr. Beziouk has 10 years international experience in marketing, business development, contract negotiations at senior governmental levels as a Commercial & External Relations Director of the Space Centre. Additionally, he has acted as the exclusive representative of major Russian corporations in North America and a number of Swedish and Finnish companies that operate in Russia. His background also includes over a decade of experience as a specialist in the Astronaut Office of the Rocket Space Corporation Energia.

John Grippo – Chief Financial Officer

John Grippo, CPA brings over 15 years experience as CFO for public and private companies focused on the manufacturing, distribution and financial services industries ranging in size up to \$250 million in revenue. John is a financial consultant to several small to medium sized companies, including functioning as a part time chief financial officer. John graduated from the University of Florida, is certified by the state of Connecticut and is a member of the New York State Society of Certified Public Accountants.

Bill Dey – Chief Operating Officer

Bill Dey brings his in-depth knowledge of the golf and sports industries through his success stories as a Forzani’s Group Senior VP of the wholesale division ([www.forzanigroup.com](http://www.forzanigroup.com)), and Senior VP and General Manager of Tommy Armour/RAM golf company. Bill’s particular expertise is in the global sales, marketing, product development, commercialization, supply chain management, and licensing. During his management Tommy Armour’s sales increased from \$400k to \$48 million in a period of 32 months.

**Audit Committee**

The Board of Directors serves as the Company’s audit committee. Currently none of the Company’s directors qualifies as a “financial expert” pursuant to Item 401 of Regulation S-B. The Company has not sought to add a director to its board who qualifies as a “financial expert” because although the Company believes it would be desirable to have a financial expert on its audit committee, the costs of retaining such an expert would be prohibitive, given the Company’s resources at this time.

**Compliance with Section 16(a) of the Exchange Act**

Each of the executive officers and directors of the Company were delinquent in filing a form 3 and/or 4 during the fiscal year.

**Code of Ethics**

The Company has not yet adopted a code of ethics for its principal executive officer, principal financial officer, principal accounting officer or controller due to the small number of executive officers involved with the Company and due to the fact that the Company operates through strategic consultants with no employees. The Board of Directors will continue to evaluate, from time to time, whether a code of ethics should be developed and adopted.

**ITEM 10. EXECUTIVE COMPENSATION****EXECUTIVE COMPENSATION**

The following table sets forth in summary form the compensation of the Company's current Chief Executive Officer and each other executive officer that received total salary and bonus exceeding \$100,000 since its inception ("Named Executive Officers").

**Summary Compensation Table**

The following table sets forth the aggregate executive compensation paid by our Company for services rendered during the periods indicated (each person is referred to in this Item 10 as a "Named Executive Officer").

**SUMMARY COMPENSATION TABLE**

(a) Name and Principal Position	Annual Compensation		(d) \$ Bonus	(e) \$ Other Annual Compensation	Long-Term Compensation			(i) \$ All Other Compensation
	(b) Years of Periods Ended	(c) \$ Salary			(f) Awards Restricted Stock Options	(g) Payouts LTIP	(h) Payouts All Other	
Nataliya Hearn, PhD, President, CEO and Director (1)	06/30/07	255,592	0	0	0	0	0	0
	06/30/06	122,945	0	0	0	0	0	0
	06/30/05	0	0	0	0	0	0	0
Jim Morin, Treasurer and Secretary (2)	06/30/07	0	0	0	0	0	0	0
	06/30/06	125,000	0	0	0	0	0	0
	06/30/05	0	0	0	0	0	0	0

## SUMMARY COMPENSATION TABLE

(a) Name and Principal Position	Annual Compensation		(d) \$ Bonus	(e) \$ Annual Compensation	Long-Term Compensation			
	(b) Years of Periods Ended	(c) \$ Salary			(f) Awards Other Restricted Stock Awards	(g) Option/ SAR's Payout	(h) LTIP Payout	(i) All Other Compensation
John Grippo, Chief Financial Officer (3)	06/30/07	141,250	0	0	0	0	0	0
	06/30/06	61,875	0	0	0	0	0	0
	06/30/05	0	0	0	0	0	0	0
Bill Dey VP of Sales, General Manager(4)	06/30/07	165,400	0	0	0	0	0	0
	06/30/06	35,000	649,156	0	0	0	0	0
	06/30/05	0	0	0	0	0	0	0
David Sindalovsky Consultant (5)	06/30/07	730,110	0	0	0	0	0	0
	06/30/06	556,248	0	0	0	0	0	0
	06/30/05	0	0	0	0	0	0	0

- (1) Nataliya Hearn serves as the CEO and President of the Company. The Company has agreed to grant Dr. Hearn options to purchase 1,500,000 common shares at a purchase price of \$0.08 per share. These options have not yet been granted and are not included above. Ms. Hearn began serving as an executive officer of the Company on October 4, 2002. Beginning January 1, 2006, at Ms. Hearn's election, she may opt to receive monthly either \$15,000 cash compensation or \$20,000 in warrants at a purchase price of \$0.01 per share. Ms. Hearn earned \$0 and \$45,000 cash compensation for the years ended June 30, 2006 and 2007, and was paid \$15,000 in cash compensation. Ms Hearn received 616,446 and 1,124,667 warrants at a purchase price of \$0.01 per share valued at \$122,945 and \$185,592 for the years ended June 30, 2006 and 2007 respectively and warrants at a purchase price of \$0.01 per share valued at \$20,000 earned between June 30, 2007 and the issue date of this Form 10KSB.
- (2) Mr. Morin resigned as an officer of the Company on July 31, 2006. Mr. Morin received 125,000 shares Series A Convertible Preferred Stock of the Company valued at \$1 per share in exchange for services rendered to the Company.
- (3) Mr. Grippo was hired as an executive officer on March 1, 2006. Mr. Grippo earned \$15,000 and \$43,500 in cash and \$46,875 and \$97,750 in stock for the years ended June 30, 2006 and 2007. Mr. Grippo received \$15,000 and \$39,000 in cash and \$0 and \$131,625 in stock for the years ended June 30, 2006 and 2007.
- (4) Mr. Dey was hired as Vice President of Sales and General Manager on January 1, 2006. Upon his hiring the company agreed to issue Mr. Dey 6,000,000, 2,000,000 and 2,000,000 (total 10,000,000) warrants at purchase prices of \$0.05, \$0.05 and \$0.08 per share vesting in 12, 24 and 36 months respectively, all of which expire March 31, 2009. The value of the options is included in the year ended June 30, 2006 in the chart above.

(5) Mr. Sindalovsky was hired as an outside consultant for material sourcing, manufacturing, engineering and the Company's relationship with strategic partners in Asia and Russia. Mr. Sindalovsky was granted 2,000,000 and 4,000,000 shares of common stock for the years ended June 30, 2006 and 2007 and 2,000,000 warrants at a purchase price of \$0.08 per share vesting immediately and expiring in four years during the year ended June 30, 2006.

Except as indicated above, no cash compensation, deferred compensation or long-term incentive plan awards were issued or granted to our Company's management during the years ended June 30, 2007, or 2006 or 2005, or the period ending on the date of this Annual Report. Further, except as indicated above, no member of our Company's management has been granted any option or stock appreciation right; accordingly, no tables relating to such items have been included within this Item.

### Compensation Committee

The Board of Directors serves as the Company's compensation committee. The Company does not have any employees. The Company expects to nominate a Compensation Committee in the near future.

### Compensation of Directors

There are no standard arrangements pursuant to which our Company's directors are compensated for any services provided as director. No additional amounts are payable to our Company's directors for committee participation or special assignments.

### Termination of Employment and Change of Control Arrangement

Except for the Company's Agreement with Dr. Hearn, a copy of which is attached hereto as Exhibit 10.4, there are no compensatory plans or arrangements, including payments to be received from our Company, with respect to any person named in the Summary Compensation Table set out above which would in any way result in payments to any such person because of his or her resignation, retirement or other termination of such person's consulting relationship with our Company or our subsidiaries, or any change in control of our Company, or a change in the person's responsibilities following a change in control of our Company.

## ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

### (a) Security Ownership of Certain Beneficial Owners.

All tables as of October 4, 2007.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(2)
Common Stock, par value \$0.01 per share	Clearline Capital LLC 86 Clearview Lane New Canaan, CT 06840	44,117,766(1)	21.0%
	Vladimir Goryunov Alderstasse 31 Zurich 8008, Switzerland	44,117,766(1)	21.0%

(1) Includes 26,470,660 shares of Common Stock upon the exercise of 26,470,660 outstanding warrants held by the holder. Includes 17,647,106 shares of Common Stock issuable upon the conversion of the 176,472 shares of Series B Convertible Preferred Stock held by the holder,

(2) Calculated based on 121,354,792 of Common Stock outstanding as of October 4, 2007 plus an aggregate of 88,235,532 shares of Common Stock issuable to Clearline Capital LLC and Vladimir Goryunov as described above.

<b>Title of Class</b>	<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
Series A Convertible Preferred Stock, par value \$0.10 per share	Nataliya Hearn(1)	1,221,910	58%
	ASA Commerce 1/2 BOLSHAYA POLYANKA UNIT 12 Moscow	891,646	42%

(1) Address is c/o Element 21 Golf Company, 200 Queens Quay East, Unit #1, Toronto, Ontario, Canada, M5A 4K9

<b>Title of Class</b>	<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
Series B Convertible Preferred Stock, par value \$0.10 per share	Clearline Capital LLC 86 Clearview Lane New Canaan, CT 06840	176,472	50%
	Vladimir Goryunov Alderstasse 31, Zurich 8008, Switzerland	176,472	50%

**(b) Security Ownership of Management.** Except as indicated in the footnotes below, each person has sole voting and dispositive power over the shares indicated.

<b>Title of Class</b>	<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class (5)</b>
Common Stock, par value \$0.01 per share			
	Nataliya Hearn, Ph.D., President, Chief Executive Officer and Director (2)	11,794,460(1)	8.2%
	John Grippo Chief Financial Officer (2)	801,238	*%
	Bill Dey, Executive Vice President and General Manager (2)	10,000,000(3)	6.9%
	Mary Bryan Director (2)	20,000	*%
	Dr. Sergey Bedziouk Director (2)	0	0%
	Benton Wilcoxon Director (2)	250,000(4)	*%
All Officers, Directors as a Group (6 Persons)		22,865,698	15.9%

(1) Includes 4,791,804 shares of Common Stock issuable upon the conversion of 1,221,910 shares of Series A Convertible Preferred Stock held by the holder. Includes 2,002,656 shares of Common Stock issuable upon the exercise of 2,002,656 warrants granted. Includes 1,000,000 shares issuable upon exercise of 1,000,000 warrants received in settlement of debt.

(2) Address is c/o Element 21 Golf Company, 200 Queens Quay East, Unit #1, Toronto, Ontario, Canada, M5A 4K9

(3) Includes 10,000,000 shares of Common Stock issuable upon the exercise of 10,000,000 warrants granted within 60 days of September 30, 2007.

(4) Includes 250,000 shares of Common Stock issuable upon the exercise of 250,000 warrants granted within 60 days of September 30, 2007.

(5) Calculated based on 121,354,792 shares of Common Stock outstanding as of October 4, 2007 plus an aggregate of 22,865,698 shares of Common Stock issuable upon the exercise of granted warrants and the conversion of outstanding shares of Series A Convertible Preferred Stock as described above.

\* Less than 1%.

## Changes in Control

Two stockholders, Clearline Capital LLC and Vladimir Goryunov, as a group, beneficially own over 25% of our common stock. As a result, they may be able to control our company and direct our affairs, including the election of directors and approval of significant corporate transactions. This concentration of ownership may also delay, defer or prevent a change in control of our company, and make some transactions more difficult or impossible without their support. These transactions might include proxy contests, tender offers, open market purchase programs or other share purchases that could give our shareholders the opportunity to realize a premium over the then prevailing market price of our common stock. As a result, this concentration of ownership could depress our stock price. In addition, the holders of the Series B Convertible Preferred Stock have the right to approve certain transactions and certain issues of securities including but not limited to certain mergers, acquisitions, liquidations, sales of equity securities that are senior to the Series B convertible Preferred Stock or the issuance of debt instruments in excess of \$1,000,000.

Currently, no known change of control is anticipated.

## ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### Transactions with Management and Others

There have been no material transactions, series of similar transactions or currently proposed transactions, to which the Company or any of our subsidiaries was or is to be a party, in which the amount involved exceeded \$60,000 and in which any director or executive officer, promoter or founder or any security holder who is known to us to own of record or beneficially more than five percent of our common stock, or any member of the immediate family of any of the foregoing persons, or any promoter or founder had a material interest.

## ITEM 13. EXHIBITS

<b>Exhibit No.</b>	<b>Exhibit Description</b>
3(i)(1)	Amended Certificate of Incorporation of the Company, incorporated herein by reference to the Company's Registration Statement on Form S-1, as amended, File No. 33-43976 filed on November 14, 1991.
3(i)(2)	Certificate of Amendment to Amended Certificate of Incorporation of the Company, incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K dated May 12, 2006.
3(i)(3)	Certificate of the Powers, Designations, Preferences and Rights of the Series A Convertible Preferred Stock, \$0.10 par value per share, incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated February 24, 2006.
3(i)(4)	Certificate of the Powers, Designations, Preferences and Rights of the Series B Convertible Preferred Stock, \$0.10 par value per share, incorporated herein by reference to Exhibit 3(i) to the Company's Form 8-K dated August 3, 2006.

- 3(i)(5) Certificate of the Powers, Designations, Preferences and Rights of the Series B Convertible Preferred Stock, \$0.10 par value per share, incorporated herein by reference to Exhibit 3(i) to 3(iix9x1) to the Company's Form 8-K dated June 18, 2007.
- 3(ii) Amended and Restated Bylaws of the Company, incorporated herein by reference to the Company's Registration Statement on Form S-1, as amended, File No. 33-43976 filed on November 14, 1991.
- 4.1 Form of Element 21 Golf Company 10% Convertible Promissory Note, incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated February 24, 2006.
- 4.2 Element 21 Golf Company 10% Convertible Promissory Note issued to Oleg Muzyrya, incorporated herein by reference to Exhibit 4.3 to the Company's Form 8-K dated February 24, 2006.
- 4.3 Common Stock Purchase Warrant, incorporated herein by reference to Exhibit 4.4 to the Company's Form 8-K dated February 24, 2006.
- 4.4 Form of Element 21 Golf Company 10% Convertible Promissory Note, incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated May 23, 2006.
- 4.5 Common Stock Purchase Warrant, incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated May 23, 2006.
- 4.6 Form of Warrant for Purchase of 3,750,000 Shares of Common Stock dated July 31, 2006, incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated August 3, 2006.
- 4.7 Form of Warrant for Purchase of 5,073,530 Shares of Common Stock dated July 31, 2006, incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated August 3, 2006.
- 4.8 Form of Warrant for Purchase of 3,750,000 Shares of Common Stock dated July 31, 2006, incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated December 1, 2006.
- 4.9 Form of Warrant for Purchase of 5,073,530 Shares of Common Stock dated July 31, 2006, incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated December 1, 2006.
- 4.10 Common Stock Purchase Warrant, incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated June 18, 2006.
- 4.11 Form of Warrant for Purchase of 5,882,400 Shares of Common Stock dated June 15, 2007, incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated June 18, 2007.

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- 10.1 Series A Convertible Preferred Stock Exchange Agreement and Acknowledgement dated as of February 22, 2006, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated February 24, 2006.
- 10.2 Element 21 Golf Company 2006 Equity Incentive Plan, incorporated herein by reference to Annex C to the Company's Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 filed on April 7, 2006.
- 10.3 Form of Subscription Agreement for Shares of Series B Convertible Preferred Stock dated as of July 31, 2006, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated August 3, 2006.
- 10.4 Form of Subscription Agreement for Shares of Series B Convertible Preferred Stock dated as of November 30, 2006, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated August 3, 2006.
- 10.5 Form of Subscription Agreement for Shares of Series B Convertible Preferred Stock dated as of June 15, 2007, incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated June 18, 2007.
- 10.6 Form of Subscription Agreement for Shares of Common Stock dated as of June, 2007, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated June 18, 2007.
- 10.7 License Agreement with Advanced Light Alloys Corporation dated as of June 21, 2007 incorporated by reference to exhibit 10.1 to the Company's Form 10KSB dated June 21, 2007
- 10.8 Consulting Agreement with Nataliya Hearn dated as of January 4, 2006 incorporated by reference to exhibit 10.4 to the Company's Form 10KSB dated October 13, 2006
- 10.9 Consulting Agreement with John Grippo dated as of November 10, 2005 incorporated by reference to exhibit 10.5 to the Company's Form 10KSB dated October 13, 2006
- 31 Rule 13a-14(a)/15a-14(a) Certifications of Chief Executive Officer and Chief Financial Officer.
- 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**ITEM 14.**

**PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**Audit Fees**

Lazar Levine and Felix LLP (“LLF”) is the Company’s independent auditors. Audit and review fees for the years ended June 30, 2007 and 2006 aggregated \$83,010 and \$59,560, respectively. LLF was hired effective October 27, 2004.

**Audit-Related Fees**

For the years ended June 30, 2007 and 2006, the Company was billed \$0 and \$1,500, respectively, for fees related to a registration statement.

**Tax Fees**

For the years ended June 30, 2007 and 2006, LLF did not provide any tax services.

**All Other Fees**

For the years ended June 30, 2007 and 2006, the Company was not billed for products and services other than those described above.

**Audit Committee Pre-Approval Policies**

The Board of Directors, which is performing the equivalent functions of an audit committee, has pre-approved all audit services provided by the independent auditors, and the compensation, fees and terms for such services. No permitted non-audit services were provided or approved by the Board of Directors.



**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**

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**REPORT OF REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors  
Element 21 Golf Company  
Toronto, Canada

We have audited the accompanying consolidated balance sheets of Element 21 Golf Company and subsidiary, (the "Company") as of June 30, 2007 and 2006 and the consolidated statements of operations, shareholders' deficit and cash flows for the two years in the period ended June 30, 2007. 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 audits in accordance with the 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 financial statements are free of material misstatement. An audit includes 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 financial statements, 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 consolidated financial position of Element 21 Golf Company and subsidiary as of June 30, 2007 and 2006 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1(b), the Company's recurring losses from operations and its dependency on future financing raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 1(b). The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

**LAZAR LEVINE & FELIX LLP**

New York, New York  
October 3, 2007

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**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**JUNE 30, 2007 AND 2006**

	2007	2006
<b>- ASSETS -</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 1,751,178	\$ 263,219
Accounts receivable - net of allowance for doubtful accounts of \$15,000 and \$0 at June 30, 2007 and 2006, respectively	123,155	11,994
Inventories	921,820	128,382
Prepaid expenses and other current assets	158,147	17,907
<b>TOTAL CURRENT ASSETS</b>	<b>2,954,300</b>	<b>421,502</b>
<b>FIXED ASSETS – NET</b>	<b>244,234</b>	<b>510,530</b>
<b>TOTAL ASSETS</b>	<b>\$ 3,198,534</b>	<b>\$ 932,032</b>
<b>- LIABILITIES AND SHAREHOLDERS' DEFICIT -</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 697,649	\$ 1,212,049
Accrued interest	46,750	31,485
Deferred revenue	17,300	-
Convertible notes	475,000	348,581
Derivative liability	2,386,011	1,491,945
<b>TOTAL CURRENT LIABILITIES</b>	<b>3,622,710</b>	<b>3,084,060</b>
<b>LONG-TERM LIABILITIES:</b>		
Loans and advances - officers/shareholders	95,006	104,162
Accounts payable - related parties	482,076	504,001
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>577,082</b>	<b>608,163</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' DEFICIT:</b>		
Preferred stock, \$.10 par value, authorized 2,447,000 shares, no shares issued and outstanding	-	-
Series A Preferred stock, \$.001 par value, authorized 2,200,000 shares, 2,113,556 shares issued and outstanding	2,114	2,114
Series B Preferred stock, \$.10 par value, authorized 353,000 shares, 352,946 shares issued and outstanding	35,295	-
Common stock, \$.01 par value; 300,000,000 shares authorized, 118,882,645 and 99,630,554 shares issued and outstanding at June 30, 2007 and 2006, respectively	1,188,826	996,308

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Additional paid-in capital	18,987,733	13,453,963
Accumulated deficit	(21,215,226)	(17,212,576)
<b>TOTAL SHAREHOLDERS' DEFICIT</b>	<b>(1,001,258)</b>	<b>(2,760,191)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT</b>	<b>\$ 3,198,534</b>	<b>\$ 932,032</b>

See notes to consolidated financial statements.

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**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

	Year Ended June 30,.	
	2007	2006
<b>REVENUES</b>	\$ 228,599	\$ 51,569
<b>COSTS AND EXPENSES:</b>		
Costs of sales	191,628	25,722
General and administrative	7,127,430	3,737,896
<b>TOTAL COSTS AND EXPENSES</b>	<b>7,319,058</b>	<b>3,763,618</b>
<b>LOSS FROM OPERATIONS</b>	<b>(7,090,459)</b>	<b>(3,712,049)</b>
<b>OTHER INCOME (EXPENSE):</b>		
Interest expense	(1,299,290)	(382,818)
Derivative income (expense)	4,250,442	(392,179)
Interest income and other income (expense), net	136,657	(9,049)
	3,087,809	(784,046)
<b>LOSS BEFORE PROVISION FOR INCOME TAXES</b>	<b>(4,002,650)</b>	<b>(4,496,095)</b>
Provision for income taxes	-	-
<b>NET LOSS</b>	<b>(4,002,650)</b>	<b>(4,496,095)</b>
Accretion of preferred stock dividend	(4,167,256)	(543,512)
<b>LOSS APPLICABLE TO COMMON STOCKHOLDERS</b>	<b>\$ (8,169,906)</b>	<b>\$ (5,039,607)</b>
Basic and diluted weighted average shares	110,294,858	97,764,539
Basic and diluted loss per share	\$ (0.07)	\$ (0.05)

See notes to consolidated financial statements.

**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

	Series A Preferred Stock	Series B Preferred Stock	Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Equity (Deficit)
Balance, June 30, 2005	\$ -	\$ -	87,487,241	\$ 874,872	\$ 10,141,767	\$ (12,716,481)	\$ (1,699,842)
Issuance of Series A Preferred Stock	2,114	-	-	-	2,111,442	-	2,113,556
Beneficial conversion feature of convertible preferred stock	-	-	-	-	543,512	-	543,512
Deemed dividend	-	-	-	-	(543,512)	-	(543,512)
Issuance of warrants for services	-	-	-	-	219,020	-	219,020
Issuance of convertible notes	-	-	-	-	63,234	-	63,234
Sale of warrants	-	-	-	-	80,000	-	80,000
Issuance of common stock for services	-	-	12,143,313	121,436	838,500	-	959,936
Net loss	-	-	-	-	-	(4,496,095)	(4,496,095)
Balance, June 30, 2006	2,114	-	99,630,554	996,308	13,453,963	(17,212,576)	(2,760,191)
Sale of Preferred shares	-	35,295	-	-	5,964,705	-	6,000,000
Deemed dividend	-	-	-	-	(4,167,256)	-	(4,167,256)
Expenses related to sale of Preferred shares	-	-	-	-	(500,000)	-	(500,000)
Issuance of common stock for converted Bridge loans including interest	-	-	2,685,294	26,853	385,647	-	412,500
Beneficial conversion feature of Bridge I loan	-	-	-	-	73,678	-	73,678
Unamortized loan discount	-	-	-	-	(290,625)	-	(290,625)
Sale of unregistered shares	-	-	2,356,471	23,563	377,037	-	400,600
Issuance of common stock for services	-	-	14,210,326	142,102	2,438,426	-	2,580,528
Compensatory warrants	-	-	-	-	1,252,158	-	1,252,158
Net loss	-	-	-	-	-	(4,002,650)	(4,002,650)
Balance June 30, 2007	\$ 2,114	\$ 35,295	118,882,645	\$ 1,188,826	\$ 18,987,733	\$ (21,215,226)	\$ (1,001,258)

See notes to consolidated financial statements.



**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (4,002,650)	\$ (4,496,095)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Compensatory common stock	1,971,840	959,936
Compensatory warrants	1,252,158	-
Compensatory preferred stock	-	777,397
Beneficial conversion feature of convertible notes	-	63,234
Interest	1,050,930	-
Bad debt provision	15,000	-
Depreciation	340,060	171,704
Amortization of debt discount	523,794	348,581
Excess derivative liability (income) expense	(4,250,442)	392,179
Changes in:		
Accounts receivable	(126,161)	24,457
Inventories	(793,438)	42,546
Prepaid expenses and other current assets	(140,240)	(11,527)
Accounts payable and accrued expenses	94,288	252,603
Accrued interest	52,765	31,485
Deferred revenue	17,300	-
Derivative liability	-	1,491,945
Net cash (used in) provided by operating activities	(3,994,796)	48,445
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Purchase of capital assets	(73,764)	(669,522)
Net cash (used in) investing activities	(73,764)	(669,522)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments to related parties	(9,156)	(379,602)
Proceeds from sale of warrants	-	80,000
Proceeds from convertible debt	180,000	1,163,000
(Repayment) of convertible debt	(493,000)	-
Expenses related to sale of preferred shares	(500,000)	-
Proceeds from sale of common shares	400,600	-
Proceeds from sale of preferred shares	6,000,000	-
Loan proceeds from (repayments to) shareholders	(21,925)	19,750
Net cash provided from financing activities	5,556,519	883,148
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>1,487,959</b>	<b>262,071</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>263,219</b>	<b>1,148</b>
<b>CASH, END OF YEAR</b>	<b>\$ 1,751,178</b>	<b>\$ 263,219</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	\$ 88,311	\$ -
Taxes paid	\$ -	\$ -

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Issuance of stock to settle accrued expenses	\$	608,688	\$	777,397
Conversion of debt and accrued interest to common stock	\$	412,500	\$	-
Compensatory stock and warrants	\$	3,223,998	\$	1,178,956
Preferred stock dividend	\$	4,167,256	\$	543,512
Beneficial conversion feature on converted notes	\$	73,678	\$	-
Loan discount on converted notes	\$	290,625	\$	-

See notes to consolidated financial statements.

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**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**(a) *Organization and Basis of Presentation:***

In September of 2002, BRL Holdings, Inc. (“BRL”) acquired Element 21 Technologies, Inc. (“Technologies”) under an Amended and Restated Agreement (the “Agreement”) wherein BRL issued 42,472,420 shares of its common stock to shareholders of Technologies and assumed Technologies’ obligations under option agreements allowing for the purchase of 6,432,000 additional shares of common stock. Technologies was a development stage company formed to design, develop and market Element 21 alloy golf clubs. This acquisition was accounted for as a reverse acquisition using the purchase method of accounting, as the shareholders of Technologies assumed control immediately following the acquisition.

In October 2003, BRL Holdings, Inc. changed its name to Element 21 Golf Company (the “Company”).

Upon the closing of the Technologies acquisition, as discussed above, the Company reported as a development stage enterprise effective September 17, 2002. During fiscal year 2005, the Company commenced active operations and began reporting revenues during the last quarter of the year. As such, the Company is no longer reporting as a development stage entity.

In May 2007, the Board of Directors adopted resolutions approving an amendment and a majority of shareholders also approved amending the Company’s Certificate of Incorporation to increase the number of authorized shares of capital stock to 300,000,000 shares of common stock and 5,000,000 shares of preferred stock.

**(b) *Going Concern:***

These 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’s subsidiary is inactive and is not expected to produce revenues or generate cash. During the last quarter of fiscal year 2005, the Company commenced sales of its products and has begun generating revenues. However, as of June 30, 2007, the Company continues to have negative working capital of \$668,410, an accumulated deficit of \$21,215,226 (\$3,261,401 of which was realized during the development stage period from September 17, 2002 to June 30, 2004), a total shareholders’ deficit of \$1,001,258 and for the year ended June 30, 2007 incurred a net loss of \$4,002,650, all of which raise substantial doubt about the Company’s ability to continue as a going concern.

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.

**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*(c) Principles of Consolidation:*

The accompanying consolidated financial statements include the accounts of the company and its wholly owned, inactive subsidiary (Element 21 Golf Company - Canada). All significant inter-company accounts and transactions have been eliminated.

*(d) Use of Estimates:*

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*(e) Fair Value of Financial Instruments:*

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses notes payable and derivative instruments. The carrying value of all instruments approximates their fair value, due to their short-term nature.

*(f) Cash and Cash Equivalents:*

For purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents.

*(g) Inventories:*

Inventories, which consist primarily of goods held for resale, are stated at the lower of cost (first-in, first-out method) or market and are comprised as follows:

	2007	2006
Finished goods	\$ 681,387	\$ -
Components	240,433	128,382
<b>Total</b>	<b>\$ 921,820</b>	<b>\$ 128,382</b>

*(h) Accounts Receivable and Bad Debts:*

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on a review of the current status of trade receivables. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change.

**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*(i) Fixed Assets and Depreciation:*

Fixed assets are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are expensed as incurred. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. Leasehold improvements are amortized over the term of the respective lease. The estimated useful lives are as follows:

Furniture and fixtures	5 years
Computer equipment	3 years
Office equipment	5 years
Tools and dies	2 years

*(j) Revenue Recognition:*

The Company recognizes revenue in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104"). Under SAB 104, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable, and collectibility is reasonably assured. Revenues from product sales are recognized when title passes to customers, which is when goods are shipped. Revenues from product shipped to sales representatives where title has not passed to the customers is reflected as deferred revenue.

*(k) Income Taxes:*

Deferred income taxes are recognized for the tax consequences in future years for differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax incurred for the period and the change during the period of deferred tax assets and liabilities.

*(l) Stock-Based Compensation:*

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123R and Emerging Issues Task Force ("EITF") No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services."

The Company does not maintain a formal incentive compensation plan covering its employees, directors and independent contractors. Options to purchase the Company's common stock vest at varying intervals, but in general, typically vest over two to four year periods. An option's maximum term is ten years. See Note 6 for additional information regarding the Company's stock options.

**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

(m) *Net Loss Per Common Share:*

The following weighted average shares were used for the computation of basic and diluted earnings per share:

	For the years ended June 30,	
	2007	2006
Basic	110,294,858	97,764,539
Diluted	110,294,858	97,764,539

Basic net loss per common share is computed by dividing the net loss applicable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net loss per common share reflects the potential from the exercise or conversion of other securities into Common Stock, but only if dilutive. Diluted loss per share for the years ended June 30, 2007 and 2006 is the same as basic loss per share, since the effects of the calculation were anti-dilutive due to the fact that the Company incurred losses for all periods presented. The following securities, presented on a common share equivalent basis, have been excluded from the per share computation since their effect was anti-dilutive.

	For the years ended June 30,	
	2007	2006
Stock options	12,800	3,200
Warrants	77,876,237	5,489,203
Preferred stock	43,582,667	8,288,455
Convertible debt	2,571,656	-

(n) *Recent Accounting Pronouncements Affecting the Company:*

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which, among other things, requires applying a "more likely than not" threshold to the recognition and de-recognition of tax positions. The provisions of FIN 48 are effective for years beginning after December 15, 2006. We are currently evaluating the impact of adopting FIN 48 on the financial statements, but we do not expect its adoption to have a significant transition effect.

In September 2006, the SEC staff published SAB No. 108, "*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*". SAB 108 addresses quantifying the financial statement effects of misstatements and considering the effects of prior year uncorrected errors on the statements of operations as well as the balance sheets. SAB No. 108 does not change the requirements under SAB No. 99 regarding qualitative considerations in assessing the materiality of misstatements. The Company adopted SAB No. 108 during the fourth quarter of fiscal year 2007, and the adoption had no impact on its results of operations or financial condition as of and for the fiscal year ended June 30, 2007.

**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

In September 2006, the FASB issued SFAS No. 157, “*Fair Value Measurements*”, which provides guidance for using fair value to measure assets and liabilities. The pronouncement clarifies (1) the extent to which companies measure assets and liabilities at fair value; (2) the information used to measure fair value; and (3) the effect that fair value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. SFAS No. 157 is effective for the Company as of July 1, 2008. Our adoption of SFAS 159 is not expected to have a material impact on our results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, “*The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*”. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Our adoption of SFAS 159 is not expected to have a material impact on our results of operations or financial position.

**NOTE 2 - FIXED ASSETS:**

Fixed assets consists of the following:

	2007	2006
Furniture and fixtures	\$ 10,184	\$ 10,178
Computer equipment	18,720	5,984
Tools & dies	694,113	635,791
Leasehold improvements	27,128	24,428
Office equipment	6,600	6,600
	756,745	682,981
Less: accumulated depreciation and amortization	512,511	172,451
	\$ 244,234	\$ 510,530

Depreciation expense for the fiscal 2007 and 2006 years aggregated \$340,060 and \$171,704, respectively.

**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**  
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**NOTE 3 - RELATED PARTY TRANSACTIONS:**

*(a) Accounts Payable - Non-Current:*

Since April of 1996 and until June 30, 2005, the Company had engaged R T Robertson Consultants, Inc. (“Robertson”) and Robertson Advisors, LLC (“Advisors”), consulting firms controlled by family members of Dr. R. Bruce Reeves, to perform the executive duties of the Company without specific compensation. Mr. Reeves was a member of the Board of Directors, President, and Chief Executive Officer of the Company until October 4, 2002. In this capacity and as an employee of the consulting firm, Dr. Reeves managed ongoing business activities of the Company until the transaction in September 2002 see Note 1(a). At June 30, 2007, \$117,468 was owed to Robertson, \$132,329 was owed to Advisors, \$1,876 was owed to Dr. Reeves and the balance of \$230,403 was owed to other related parties. All parties have indicated that payment of these balances is not expected during the next fiscal year.

*(b) Loans and Advances - Officers/Shareholders:*

All loans and advances from officers/shareholders are made on a non-interest bearing basis and the officer has agreed to not demand payment during the next fiscal year.

Included in accounts payable and accrued expenses as of June 30, 2007 and 2006 is approximately \$383,000 and \$1,035,000, respectively, of compensation accrued for our officers and directors. Substantially all of this liability is due to be paid in Company common stock.

**NOTE 4 - 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. With respect to notes totaling \$340,000 (the “\$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 (the “Equity Financing”) completed within 12 months. With respect to one note for \$200,000 (the “\$200,000 Note”), the investor received 3,529,413 warrants (1/3 warrants exercisable for one year, 1/3 warrants exercisable for two years, and the 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 of these warrants are subject to certain anti-dilution price adjustments. The \$340,000 Notes and the \$200,000 Note mature one year after issuance and accrue interest at an annual interest rate equal to 10% per annum, payable at maturity. All the notes and interest are convertible, at the option of the investor, into shares of Company’s Common Stock under the same terms and conditions as the warrants.

**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 4 - CONVERTIBLE NOTES (Continued):**

During the year ended June 30, 2007, two notes totaling \$75,000 and \$7,500 in related accrued interest were converted into 485,294 shares of common stock. As a result, the Company charged the remaining balance of \$40,625 of unamortized discount to the notes to additional paid-in capital. In order to induce the note holders to convert their notes into stock, the Company offered certain incentives, which included piggy back 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, two \$20,000 notes were cancelled during the year ended June 30, 2007 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. During the year ended June 30, 2007, the remaining \$225,000 face value of the \$340,000 Notes matured and was paid, along with the requisite accrued interest of 10% per annum, and the original one year warrants expired without being exercised. In January, 2007 the \$200,000 Note matured, however, the holder requested, and the Company granted a six month extension to exercise the conversion of the one year warrants and the note. The Company granted the extension of the maturity date on the note to July 15, 2007 without interest. In June, 2007, the holder requested an early payment of the note and in return agreed to the cancellation of all the warrants, to which the Company agreed effective immediately. The Company terminated the related warrants in June, 2007 and recorded the termination as derivative income. In July 2007, subsequent to the balance sheet date the Company paid the \$200,000 Note and accrued interest of \$20,000.

As of June 30, 2007, all of the remaining unexpired warrants related to the \$340,000 Notes financing were revalued and the liability was adjusted to approximately \$133,000. The terms of the warrants issued for the \$340,000 Notes resulted in the Company losing control over the number of shares to be issued (the "tainting feature"). As such, all warrants and embedded derivatives, if any, related to convertible notes and preferred shares issued subsequently would be affected by this tainting feature and would default to being recorded as derivative liability and not equity. As of June 30, 2007 the Company revalued the warrants using 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 4.9% to 5.0% and volatility ranging from 37% to 115% (range in volatility is due to the term of the remaining warrants). Volatility is based upon the historical volatility of the Company's stock price.

*Bridge II Financing:*

Between May 5 and June 30, 2006, the Company issued additional 10% Convertible Promissory Notes in the aggregate principal face amount of \$623,000 to 16 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 \$623,000 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 of these warrants are subject to certain anti-dilution price adjustments. The \$623,000 Notes mature one year after issuance and accrue interest at an annual interest rate equal to 10% per annum, payable at maturity. The notes and interest are convertible, at the option of the investor, into shares of the Company's Common Stock under the same terms and conditions as the warrants.

**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 4 - CONVERTIBLE NOTES (Continued):**

In July, 2006, the Company issued additional 10% Convertible Promissory Notes in the aggregate principal face amount of \$180,000 to 6 additional investors (the "\$180,000 Notes"). The terms of the notes and warrants 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. Warrants are freestanding derivatives and need to be similarly analyzed under EITF 00-19 to determine if equity classification is appropriate.

The Company determined that the conversion option of the notes was required to be bifurcated and accounted for as a derivative. The warrants were also required to be recorded and accounted for as a derivative due to the same tainting feature as the Bridge I Financing and as a result of this tainting feature, the terms of the Bridge II Financing also resulted in similar accounting treatment.

The conversion option and the warrants in respect of the Bridge II Financing (\$623,000 Notes), were initially valued at approximately \$559,800 and \$373,200, respectively. The combined liability was restricted to the value of the proceeds of \$623,000 and has been recorded as discount to the convertible notes with a corresponding credit to warrant liability, respectively, on a pro-rata basis. The discount of \$623,000 is accreted on a straight-line basis over the maturity period of the notes. The liabilities for the conversion option and the warrants were adjusted to zero as of June 30, 2007 as the conversion option of the notes and the warrant stock purchase option expired.

The conversion option and the warrants with respect to the Bridge II Financing (\$180,000 Notes) were initially valued at a combined approximate amount of \$178,400, which has been recorded as a 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 liabilities for the conversion option on the notes and the warrants were adjusted to approximately \$11,000 combined as of June 30, 2007.

The Company valued 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 4.9% and volatility of 3%.

**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 4 - CONVERTIBLE NOTES (Continued):**

During the year ended June 30, 2007, notes totaling \$300,000 (principal) plus \$30,000 in accrued interest of the Bridge II financing \$623,000 Notes, were converted into 2,200,000 shares of common stock. As a result of the conversion, the Company charged additional paid-in capital for \$250,000 as the remaining unamortized discount on the notes and reversed derivative expense of approximately \$150,700 related to the conversion option. 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. As a result of the extension of the warrant expiration date and setting of the conversion rate, the Company recorded an additional derivative expense of approximately \$42,600.

As of June 30, 2007, all of the remaining Bridge II financing warrants issued and conversion option were revalued and the derivative liability was adjusted to approximately \$10,000. As of June 30, 2007 the Company revalued 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 4.9% and volatility of 3%.

**NOTE 5 - PREFERRED SHARES:**

*Series A Preferred Stock:*

In February 2006, the Company issued a total of 2,113,556 shares of newly designated Series A Convertible Preferred Stock in order to settle outstanding debts owed to officers and consultants of the Company (a portion of which were for unpaid consulting fees) in the aggregate amount of \$2,113,556. The shares of Series A Convertible Preferred Stock are convertible at the option of the holder, at any time after issuance. Each share of Series A Convertible Preferred Stock is convertible into that number of shares of common stock of the Company as is equal to the Original Issue Price of shares of Series A Convertible Preferred Stock, or \$1.00, by the Conversion Price which is initially equal to \$0.255 and is subject to adjustment in certain cases. Each share of Series A Convertible Preferred Stock carries with it the right to fifty votes.

Also, in February 2006, the Company issued a warrant to purchase 1,000,000 shares of the Company's common stock at a price of \$0.01 as part of the Company's repayment of outstanding indebtedness to a creditor of the company. The warrant vested immediately and is exercisable for a three year period from the date of issuance. As of June 30, 2007, the warrant was revalued and the derivative liability was adjusted to approximately \$151,000. As of June 30, 2007 the Company revalued the warrant under the Black Scholes option-pricing model with the following assumptions: an expected life equal to the contractual term of the warrant, as the case may be; no dividends; a risk free rate of return of 4.9% and volatility of 116%.

**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**  
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**NOTE 5 - PREFERRED SHARES (Continued):**

*Series B Preferred Stock:*

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 two 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 B1 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 occurred on November 30, 2006 (the "Subsequent Closing Date").

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 obligated each Purchaser to invest the remaining \$1 million of its Investment Amount (the "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. On October 31, 2006, both Purchasers had agreed to waive any conditions to the Subsequent Closing. On the Subsequent Closing Date, in exchange for each Purchaser's Additional Investment Amount, the Company issued 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 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"). On the Subsequent Closing Date, the Company granted 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.

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**NOTE 5 - PREFERRED SHARES (Continued):**

On June 15, 2007, the Company consummated a \$2,000,000 equity financing by entering into two additional Series B Convertible Preferred Stock Subscription Agreements (each a "Series B Subscription Agreement" and collectively the "Series B Subscription Agreements") with two purchasers (each a "Purchaser" and collectively, the "Purchasers"). Each Series B Subscription Agreement provides for the sale by the Company to the applicable Purchaser 58,824 shares of the Company's Series B Convertible Preferred Stock, par value \$0.10 per share (the "Additional Series B Preferred Stock"), and warrants to purchase an aggregate of 5,882,400 shares of the Company's Common Stock, \$.01 par value per share, in exchange for and in consideration of an aggregate investment by each of the Purchasers of \$1 million in cash.

On the Closing Date, each Purchaser invested \$1 million in the Company in return for 58,824 shares of Additional Series B Preferred Stock and warrants (the terms of which are identical to the Series B Convertible Preferred Stock described above) to purchase an aggregate of 5,882,400 shares of Common Stock. The Company granted each Purchaser one warrant to purchase 5,882,400 shares of common stock at an exercise price of \$0.19 per share. The Warrants expire on May 31, 2008. 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 Company has evaluated the Series B Preferred Stock to determine if there are any embedded derivatives and determined that the Series B Preferred Stock is more akin to equity than debt as it is not redeemable and carries voting rights. As such the Series B Preferred Stock 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 Stock and therefore need not be separated. The warrants associated with the issuance of the Series B Preferred Stock have been determined to be a liability due to the tainting feature of the warrants issued with Bridge I and Bridge II Financings. The warrant issuance has been valued at \$167,250 using the Black Scholes method. The value of the warrants has been recorded as a dividend with a corresponding discount to the Series B Preferred. The Series B Preferred Stock 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 be zero as the conversion price equaled or exceeded the stock price on the date of the agreement.

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**NOTE 5 - PREFERRED SHARES (Continued):**

The Series B Preferred Stock has a conditional 4% dividend attached. The Company has no obligation to pay a dividend except in certain circumstances. The conditional dividend obligation attaches on the anniversary of each issuance whether the Board of Directors declares a dividend payment or not. The Preferred Stock dividend has a priority over junior equity issuances upon the occurrence of a liquidating event. Additionally, no dividends may be paid to holders of common stock unless all Preferred Stock dividends have been paid. As of June 30, 2007, the anniversary date for accrual of dividends had not occurred, however, if dividends were earned on an accrual basis, then \$83,333 in dividends would be entitled to the preference described above. In addition, the holders of the Series B Convertible Preferred Stock have the right to approve certain transactions and certain issues of securities including but not limited to certain mergers, acquisitions, liquidations, sales of equity securities that are senior to the Series B convertible Preferred Stock or the issuance of debt instruments in excess of \$1,000,000

**NOTE 6 - SHAREHOLDERS' EQUITY/STOCK OPTION PLANS:**

During fiscal 2006, the Company issued 12,143,313 shares of common stock for consulting and legal services and in settlement of liabilities. The value recorded was based on the market price at the time of issuance and aggregated \$959,936.

During fiscal 2007, the Company issued 14,210,326 shares of its common stock to various consultants for marketing and investor relations services provided. Such shares were valued at the market price as of the date of issuance, aggregating \$2,580,528.

As of June 30, 2007 there are two stock option plans in effect; the 1992 Directors' Stock Option Plan (Directors' Plan) and the 1992 Stock Option Plan (Option Plan). There are no stock options outstanding under the Option Plan. No stock options have been granted under either the Director's Plan or the Option Plan since 2002. The Directors' Plan allows for the grant of options to purchase up to 250,000 shares of the Company's common stock at an exercise price no less than the stock market price at the date of grant. Options granted under this Plan vest immediately and expire 10 years from the date of grant. The Option Plan allows for the grant of options to employees to purchase up to 10% of the issued and outstanding shares of the Company, not to exceed 1,000,000 shares, at an exercise price equal to the stock's market price at the date of grant. The Board sets vesting and expiration dates. The Company has not granted any options under either of these plans during the two years ended June 30, 2007.

The following table summarizes information about stock options outstanding, all of which were granted under the Directors' Plan and are exercisable:

Outstanding as of June 30, 2005	52,800
Expired	(40,000)
Outstanding as of June 30, 2006	12,800
Expired	(9,600)
Outstanding as of June 30, 2007	3,200

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**NOTE 6 - SHAREHOLDERS' EQUITY/STOCK OPTION PLANS (Continued):**

Exercise prices of the outstanding options are as follows:

Exercise Prices	Number of Options
\$1.25	1,600
\$0.63	1,600
	3,200

In addition to the Director's Plan options, during 1996 the Company issued 8,000 non plan options with the exercise price of \$1.13 that expire December 31, 2007.

**NOTE 7 - INCOME TAXES:**

The Company has not filed any federal or state tax returns for any of the tax years subsequent to December 31, 1998. Management intends to cure this deficiency as soon as possible and expects there will be no federal tax liability (based on continued losses) for these delinquent years. Deferred tax assets and liabilities consist of the following as of June 30:

	2007	2006
<b>Deferred tax assets:</b>		
Net operating loss carry forwards	\$ 3,453,705	\$ 2,136,300
Less valuation allowance	(3,453,705)	(2,136,300)
	\$ -	\$ -

Income taxes are computed using the asset and liability method of accounting. Under the asset and liability method, a deferred tax asset or liability is recognized for estimated future tax effects attributable to temporary differences and carryforwards. The measurement of deferred income tax assets is adjusted by a valuation allowance, if necessary, to recognize future tax benefits only to the extent, based on available evidence, that it is more likely than not such benefits will be realized.

A valuation allowance equivalent to 100% of the deferred tax asset has been established since, at the current time, it is more likely than not, that the Company will not be able to recognize a tax benefit for the asset. The net operating losses of approximately \$9,850,000 expire at various dates through 2024.

Effective July 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109." FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements in accordance with SFAS No. 109. Tax positions must meet a "more-likely-than-not" recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Upon the adoption of FIN 48, the Company had no unrecognized tax benefits. The Company recognizes interest and penalties, if any, related to uncertain tax positions in selling, general and administrative expenses. No interest and penalties related to uncertain tax positions were accrued at June 30, 2007.



**ELEMENT 21 GOLF COMPANY AND SUBSIDIARY**  
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**NOTE 8 - COMMITMENTS:**

In April 2006, the Company entered into a three-year lease for office space in Toronto, Canada, for a monthly payment of \$1,927 plus applicable taxes. The Company also negotiated a final settlement on its lease in Irvine, California for \$1,992. Rent expense for the years ended June 30, 2007 and 2006 aggregated \$39,461 and \$35,474, respectively. In addition, the Company rents office space on a month to month basis in New Jersey for which it pays \$250 per month. The future annual minimum lease payments are as follows:

Fiscal 2008	\$ 23,124
Fiscal 2009	17,343
	\$ 40,467

On June 21, 2007, the Company signed a licensing agreement with Advanced Light Alloys Corporation for the licensing of scandium patents for fishing equipment applications. The Company has agreed to pay a 20% royalty on the net sales derived from fishing related products. The minimum annual royalty amount due under this agreement is \$100,000. The agreement expires coterminous with the patent expirations. The patents expire June 2014. The agreement may be terminated by the Company in May of each year.