

ELEMENT 21 GOLF CO
Form 10-Q
February 13, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2008

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

Commission File No. 0-15260

Element 21 Golf Company
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

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

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

416-362-2121
Registrant's telephone number, including area code

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a small reporting company. See the definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

APPLICABLE ONLY ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING
FIVE YEARS

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Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court
Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date, 8,933,656 shares of common stock, par value \$.01 per share as of February 12, 2009.

Element 21 Golf Company and Subsidiary

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PART 1 - FINANCIAL INFORMATION

Item 1 - Financial Statements

ELEMENT 21 GOLF COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

| | December 31, 2008 (unaudited) | June 30, 2008 |
|---|-------------------------------------|---------------------|
| - ASSETS - | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 260,682 | \$ 770,602 |
| Accounts receivable - net of allowance for doubtful accounts of \$42,000 | 283,512 | 471,006 |
| Inventories | 1,405,119 | 1,556,788 |
| Prepaid expenses and other current assets | 148,807 | 46,615 |
| TOTAL CURRENT ASSETS | 2,098,120 | 2,845,011 |
| FIXED ASSETS – NET | 63,357 | 101,255 |
| TOTAL ASSETS | \$ 2,161,477 | \$ 2,946,266 |
| - LIABILITIES AND SHAREHOLDERS' DEFICIT - | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 514,004 | \$ 945,230 |
| Royalty payable | 386,027 | 240,524 |
| Accrued expenses – compensation | 1,852,560 | 1,617,074 |
| Deferred revenue | - | 60,720 |
| Loan payable – shareholder | 825,000 | 825,000 |
| Derivative liability | 13,759 | 117,284 |
| TOTAL CURRENT LIABILITIES | 3,591,350 | 3,805,832 |
| LONG-TERM LIABILITIES: | | |
| Accounts payable - related parties | 242,076 | 242,076 |
| Loans and advances – officer | 176,468 | 110,412 |
| TOTAL LONG-TERM LIABILITIES | 418,544 | 352,488 |
| - COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' DEFICIT: | | |
| Preferred stock, \$.10 par value, authorized 2,447,000 shares, no shares issued and outstanding | - | - |
| Series A Convertible Preferred stock, \$.001 par value, authorized 2,200,000 shares, 2,113,556 shares issued and outstanding | 2,114 | 2,114 |
| Series B Convertible Preferred stock, \$.10 par value, authorized 353,000 shares, 294,126 shares issued and outstanding | 29,413 | 29,413 |
| Common stock, \$.01 par value; 300,000,000 shares authorized, 8,516,156 and 7,256,088 shares issued and outstanding at December 31, 2008 and June 30, 2008, | 85,162 | 72,561 |

respectively

| | | |
|--|---------------------|---------------------|
| Additional paid-in capital | 23,247,854 | 22,754,425 |
| Accumulated deficit | (25,212,960) | (24,070,567) |
| TOTAL SHAREHOLDERS' DEFICIT | (1,848,417) | (1,212,054) |
| TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT | \$ 2,161,477 | \$ 2,946,266 |

See notes to condensed consolidated financial statements

ELEMENT 21 GOLF COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX AND THREE MONTHS ENDED DECEMBER 31, 2008 AND 2007
(unaudited)

| | Six months Ended December 31, | | Three months Ended December 31, | |
|---|-------------------------------|--------------|---------------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| REVENUES | \$ 985,907 | \$ 386,932 | \$ 430,651 | \$ 255,801 |
| COSTS OF SALES | 635,047 | 275,127 | 285,325 | 215,583 |
| GROSS MARGIN | 350,860 | 111,805 | 145,326 | 40,218 |
| General and administrative expenses | 1,557,816 | 2,854,291 | 672,118 | 1,915,031 |
| LOSS FROM OPERATIONS | (1,206,956) | (2,742,486) | (526,792) | (1,874,813) |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | 2,629 | 7,811 | 1,183 | 6,530 |
| Interest expense | (41,591) | - | (20,796) | - |
| Derivative income | 103,525 | 2,028,644 | 42,818 | 2,675,911 |
| | 64,563 | 2,036,455 | 23,205 | 2,682,441 |
| INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES | (1,142,393) | (706,031) | (503,587) | 807,628 |
| Provision for income taxes | - | - | - | - |
| NET INCOME (LOSS) | \$ (1,142,393) | \$ (706,031) | \$ (503,587) | \$ 807,628 |
| Basic weighted average shares | 7,535,876 | 6,137,071 | 7,530,324 | 6,240,917 |
| Diluted weighted average shares | 7,535,876 | 6,137,071 | 7,530,324 | 8,642,407 |
| Basic income (loss) per share | \$ (0.15) | \$ (0.12) | \$ (0.07) | \$ 0.13 |
| Diluted income (loss) per share | \$ (0.15) | \$ (0.12) | \$ (0.07) | \$ 0.09 |

See notes to condensed consolidated financial statements.

ELEMENT 21 GOLF COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED DECEMBER 30, 2008 AND 2007
(unaudited)

| | 2008 | 2007 |
|---|-------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (1,142,393) | \$ (706,031) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Compensatory common stock and warrants | 657,639 | 2,152,260 |
| Depreciation and amortization | 37,898 | 184,600 |
| Excess derivative liability expense (income) | (103,525) | (1,966,267) |
| Changes in: | | |
| Accounts receivable | 187,494 | (11,953) |
| Inventory | 151,669 | (90,769) |
| Prepaid expenses and other current assets | (102,192) | (237,616) |
| Accounts payable and accrued expenses | (256,346) | (287,763) |
| Accrued interest | 54,500 | (27,250) |
| Deferred revenue | (60,720) | (12,071) |
| Net Cash (used in) Operating Activities | (575,976) | (1,002,860) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of capital assets | — | (44,703) |
| Net Cash (Used in) Investing Activities | — | (44,703) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Loans and advances received from (repaid to) officers/shareholders | 66,056 | 20,655 |
| (Repayments of) net proceeds from bridge loans | — | (475,000) |
| Net Cash Provided by (used by) Financing Activities | 66,056 | (454,345) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (509,920) | (1,501,908) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 770,602 | 1,751,178 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 260,682 | \$ 249,270 |
| SUPPLEMENTAL CASH FLOWS INFORMATION: | | |
| Interest paid | \$ - | \$ 46,750 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Issuance of common stock to pay expenses and settle accrued expenses | \$ 493,429 | \$ 1,314,400 |

See notes to condensed consolidated financial statements.

ELEMENT 21 GOLF COMPANY AND SUBSIDIARY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

NOTE 1 NATURE OF BUSINESS AND OPERATIONS

Element 21 Golf Company and subsidiary (the “Company” and or “Element 21”) designs, develops and markets Scandium alloy golf and fishing products. The first products manufactured using the Company’s proprietary technology have been produced and the Company commenced distribution to wholesalers and retail markets during the last quarter of its fiscal year ended June 30, 2006.

In June, 2007 the Company expanded into recreational fishing equipment. On June 21, 2007, the Company entered into a non-exclusive, world-wide patent license with Advanced Light Alloys Corporation (Advanced) by which Element 21 was licensed by Advanced to make, use, and sell fishing equipment utilizing certain of Advanced’s patents.

The Company is subject to a number of risks similar to those of other companies in the early stages of operations. Principal among these risks are dependencies on key individuals, competition from other current or substitute products and larger companies, the successful marketing of its products and the potential need to obtain adequate additional financing necessary to fund future operations.

NOTE 2 BASIS OF PREPARATION

Pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q, the financial statements, footnote disclosures and other information normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The financial statements contained in this report are unaudited but, in the opinion of Management, reflect all adjustments, consisting of only normal recurring adjustments necessary for a fair presentation of the condensed consolidated financial statements. All significant inter-company accounts and transactions have been eliminated in consolidation. The results of operations for any interim period are not necessarily indicative of results for the full year. The balance sheet at June 30, 2008 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

For further information, refer to the consolidated financial statements and notes thereto included in the Company’s Form 10-KSB for the year ended June 30, 2008.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

On April 25, 2008, the Company effected a 1 for 20 reverse stock split. All share and per share amounts in this report have been retroactively restated to reflect the 1 for 20 reverse split.

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:

| | December 31, | |
|----------------|--------------|---------------|
| | 2008 | June 30, 2008 |
| Finished goods | \$ 1,178,091 | \$ 943,485 |

| | | |
|------------|--------------|--------------|
| Components | 227,028 | 613,303 |
| Total | \$ 1,405,119 | \$ 1,556,788 |

NOTE 3 RECENT ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and all interim periods within those fiscal years. In February, 2008, the FASB released FASB Staff Position (FSP FAS 157-2 – Effective Date of FASB Statement No. 157) which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The implementation of SFAS No. 157 for financial assets and liabilities, effective July 1, 2008, did not have an impact on the Company's financial position and results of operations. The Company is currently evaluating the impact of adoption of this statement in its non-financial assets and liabilities..

ELEMENT 21 GOLF COMPANY AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3 RECENT ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY (Continued)

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 did not have a material impact on our results of operations or financial position.

In March 2008, the FASB issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Our adoption of SFAS 161 is not expected to have a material impact on our results of operations or financial position.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. Prior to the issuance of SFAS 162, GAAP hierarchy was defined in the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. Our adoption of SFAS 162 is not expected to have a material impact on our results of operations or financial position.

NOTE 4 GOING CONCERN

These interim financial statements have been presented on the basis that the Company is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has only recently begun generating revenues. Even with the generation of revenues from the sale of golf and fishing products now being produced and sold, the Company expects to incur expenses in excess of revenues for an indefinite period.

Key financial information follows:

| | Six Months Ended December 31, 2008 | Year Ended June 30, 2008 |
|--------------------------|---|--------------------------------|
| Negative working capital | \$ (1,493,230) | \$ (960,821) |
| Net loss | \$ (1,142,393) | \$ (2,855,341) |
| Accumulated deficit | \$ (25,212,960) | \$ (24,070,567) |

As shown in the accompanying financial statements, during the six months ended December 31, 2008 the Company incurred a net loss of \$1,142,393 and cash utilized by operations during this period was \$575,976. For the fiscal year ended June 30, 2008, the Company realized a net loss of \$2,855,341 and utilized cash of \$1,477,309 from operations.

These factors, among others, raise significant doubt about the Company's ability to continue as a going concern. The unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow and meet its obligations on a timely basis and ultimately attain profitability. Since acquiring the Element 21 Technologies golf development business, the Company has depended on advances and consulting services from consultants engaged by the Company as well as prior financings.

ELEMENT 21 GOLF COMPANY AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4 GOING CONCERN (Continued)

Absent these continuing advances, services and financings, the Company could not continue with the development and marketing of its golf and fishing products.

Managements' plans for the Company include more aggressive marketing, raising capital in addition to \$300,000 that management has raised in January 2009 and other strategies designed to optimize shareholder value. However, no assurance can be given that management will be successful in fulfilling all components of its plan. The failure to achieve these plans will have a material adverse effect on the Company's financial position, results of operations and ability to continue as a going concern.

NOTE 5 RELATED PARTY ADVANCES AND LOANS PAYABLE

During the six months period ended December 31, 2008, a certain officer advanced a net amount of \$66,056 to the Company. The officer will not require repayment of the \$176,468 loans and advances balance at December 31, 2008 within the next 12 months.

In February 7, 2008, a shareholder made a loan to the Company of \$1 million in the form of an unsecured promissory note with stated interest of 10%; such note was paid in full, including interest of \$25,000, on May 27, 2008. The Company entered into a new unsecured promissory note of \$825,000 on May 27, 2008 with a stated interest rate of 10% and a repayment date of November 1, 2008. The loan agreement contains default provisions and the Company went into default; however, during the quarter ended December 31, 2008, the Company has negotiated an extension of the repayment date until February 28, 2009.

NOTE 6 (LOSS) PER SHARE

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

For the six months ended December 31, 2008 and 2007, the effect of stock options and other potentially dilutive shares were excluded from the calculation of diluted net loss per common share, as their inclusion would have been anti-dilutive. Therefore diluted loss per share is equal to basic loss per share. Such securities, shown below, presented on a common share equivalent basis and outstanding as at December 31, 2008 and 2007 have been excluded from the three and six month diluted loss per share computations:

| | December 31, 2008 | December 31, 2007 |
|-----------------------|----------------------|----------------------|
| Warrants | 2,565,939 | 3,618,705 |
| Convertible Preferred | | |
| Stock | 1,885,016 | 2,179,133 |
| Stock Options | 160 | - |

NOTE 7 SHAREHOLDER'S EQUITY

During the six months ended December 31, 2008 the Company issued 1,260,068 shares of its common stock to consultants for services rendered and to be rendered by them for an aggregate value of \$493,429 based on the market price of the shares at time of issuance.

In February 2006, the Company issued a warrant to purchase 50,000 shares of the Company's common stock at a price of \$0.20 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 December 31, 2008, the warrant was revalued and the derivative liability was adjusted to approximately \$121. As of December 31, 2008 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 1.36% and volatility of 94.32%.

ELEMENT 21 GOLF COMPANY AND SUBSIDIARY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

NOTE 7 SHAREHOLDER'S EQUITY (Continued)

The Company issued warrants in conjunction with the issuance of convertible notes in 2006. As of December 31, 2008, all of the remaining unexpired warrants (three year) were revalued and the liability was adjusted to approximately \$3,825. As of December 31, 2008 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 options or warrants, as the case may be; no dividends; a risk free rate of return of 1.36% and volatility of 94.32%. Volatility is based upon the historical volatility of the Company's stock price.

The Company also previously issued warrants in conjunction with compensation for services rendered by various consultants. As of December 31, 2008, all of the remaining unexpired warrants were revalued and the liability was adjusted to approximately \$9,813. As of December 31, 2008 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 options or warrants, as the case may be; no dividends; a risk free rate of return of 1.36% and volatility of 94.32%. Volatility is based upon the historical volatility of the Company's stock price.

NOTE 8 FAIR VALUE MEASUREMENTS

Effective July 1, 2008, we adopted SFAS 157, Fair Value Measurements (SFAS 157). SFAS 157 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The adoption of SFAS No. 157 did not have a material impact on our fair value measurements.

The following tables present our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

| Description | Fair Value Measurements at Reporting Date Using | | | |
|-------------|---|--|---|---|
| | December 31, 2008 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | | | |

| | |
|---|---|
| Liabilities | |
| Derivative Instrument | \$ 13,759 \$ - \$ - \$ 13,759 |
| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) |
| Beginning Balance | \$ 117,284 |
| Total gains or (losses) (realized/unrealized) | |
| Included in earnings | (103,525) |
| Included in other comprehensive income | - |
| Purchases, issuances and settlements | - |
| Transfer in and/or out of Level 3 | - |
| Ending Balance | \$ 13,759 |

NOTE 9

SUBSEQUENT EVENTS

On February 4, 2009, the Company consummated a Three Hundred Thousand Dollar (\$300,000) Convertible Bridge financing by entering into a Convertible Bridge Loan Note, Warrant Agreement and Subscription Agreement with Rodney Hammer. The Subscription Agreement provides for the Purchaser to loan to the Company, \$300,000 in exchange for a Convertible Bridge Note which provides for repayment within 6 months from January 30, 2009 at the rate of 7% per annum with interest due and payable upon maturity. This note can be converted by the Purchaser at anytime during or at the expiration of 6 months at a conversion price equal to \$0.45 cents per share. In addition the Company issued to the Purchaser a warrant (the "Warrant") to purchase an additional \$300,000 worth of shares at \$0.35 cents each for a period of 12 months from January 30, 2009. The Warrant expires on January 30, 2010. The exercise price of the Warrant is subject to adjustment in the event of certain dilutive issuances, stock dividends, stock splits, share combinations or other similar recapitalization events.

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

Cautionary Statement Regarding Forward-Looking Information

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

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

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

Results of Operations

Six Months Ended December 31, 2008 and 2007

For the six months ended December 31, 2008 the Company had revenue of \$985,907, which includes non-cash barter revenue of \$118,471, and incurred costs of sales of \$635,047 and general and administrative expenses of \$1,557,816. Included in general and administrative expenses is a non-cash charge of \$266,038, representing the value of compensatory common stock and warrants for services provided by consultants. This resulted in a net loss of \$1,142,393, as compared with the six months ended December 31, 2007 in which the Company had revenue of \$386,932, incurred costs of sales of \$275,127 and general and administrative expenses of \$2,854,291, resulting in a net loss of \$706,031.

Three Months Ended December 31, 2008 and 2007

For the three months ended December 31, 2008 the Company had revenue of \$430,651, which includes non-cash barter revenue of \$102,813, and incurred costs of sales of \$285,325 and general and administrative expenses of \$672,118. Included in general and administrative expenses is a non-cash charge of \$266,038, representing the value of compensatory common stock and warrants for services provided by consultants. This resulted in a net loss of \$503,587, as compared with the three months ended December 31, 2007 in which the Company had revenue of \$255,801, incurred costs of sales of \$215,583 and general and administrative expenses of \$1,915,031, and derivative income of \$2,675,911. Included in general and administrative expenses is a non-cash charge of \$577,687,

representing the value of common shares issued for services provided by consultants. This resulted in a net income of \$807,628.

Financial Condition, Liquidity and Capital Resources

The Company has negative working capital as of December 31, 2008 of \$1,493,230. The Company retains consultants who are also significant stockholders of the Company to perform development and public company reporting activities in exchange for stock of the Company. At June 30, 2008, we had a working capital deficiency of \$960,821. Our continuation as a going concern will require that we raise significant additional capital.

Absent continued issuances of common stock for services to our consultants and continued advances by stockholders of the Company, the Company cannot manufacture its golf shaft or fishing product lines or market its products based on its technologies. The Company is actively searching for capital in addition to \$300,000 that management has raised in January 2009 to implement its business plans, supply the Company with products for distribution, and develop collateral materials for its potential customer base. There can be no assurance that such capital will be raised on terms acceptable to the Company and if this capital is raised, it, may cause significant dilution to the Company's stockholders.

Recent Accounting Pronouncements

See Note 3 "Recent Accounting Pronouncements Affecting the Company" in the Notes to Condensed Consolidated Financial Statements in Item 1 for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition, which is incorporated herein.

Dividend Policy

The Company has not declared or paid any cash dividends on its common stock since its inception and does not anticipate the declaration or payment of cash dividends in the foreseeable future. The Company intends to retain earnings, if any, to finance the development and expansion of its business. The Company 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. Therefore, there can be no assurance that dividends of any kind will ever be paid.

Effect of Inflation

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

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Stock-Based Compensation:

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Statement of Financial Accounting Standards No. 123(R), Shared-Based Payments (FAS 123(R)). Under FAS 123(R), compensation cost is calculated on the date of the grant using the Black Scholes option-pricing formula. The compensation expense is then amortized over the vesting period. The Company uses the Black-Scholes option-pricing formula in determining the fair value of the Company's options at the grant date and applies judgment in estimating the key assumptions that are critical to the model such as the expected term, volatility and forfeiture rate of an option. The Company's estimate of these key assumptions is based on historical information and judgment regarding market

factors and trends. If actual results are not consistent with the Company's assumptions and judgments used in estimating the key assumptions, the Company may be required to record additional compensation or income tax expense, which could have a material impact on the Company's financial position and results of operations.

Allowance for Doubtful Accounts:

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which would be charged against earnings.

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating the actual current tax liabilities together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheet. The most significant tax assets are available net operating loss carryforwards. . We must then assess the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, a valuation allowance must be established. To the extent we establish a valuation allowance or increase or decrease this allowance in a period, the impact will be included in the tax provision in the statement of operations. Significant management judgment is required to determine our provision for income taxes and the recoverability of the deferred tax asset. It is based on our estimates of future taxable income by jurisdiction in which we operate and the period over which the deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods, a valuation allowance may need to be established which could result in a tax provision equal to the carrying value of the deferred tax assets.

Property and Equipment

We record property and equipment at cost and depreciate that cost over the estimated useful life of the asset on a straight-line basis. Ordinary maintenance and repairs are expensed as incurred and improvements that significantly increase the useful life of property and equipment are capitalized.

We test property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net cash flows expected to be generated by the asset. If such assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets based on the projected net cash flows discounted at a rate commensurate with the risk of the assets.

ITEM 3

CONTROLS AND PROCEDURES:

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

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

PART II - OTHER INFORMATION

Item 1 LEGAL PROCEEDINGS

None

Item 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended December 31, 2008 the Company issued 1,026,172 shares of its common stock to consultants for services rendered and to be rendered by them and for an aggregate value of \$266,038. The shares were issued in reliance on exemptions from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Item 3 DEFAULT UPON SENIOR SECURITIES

None

Item 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

Item 5 OTHER INFORMATION

None

Item 6 EXHIBITS

| Exhibit No. | Exhibit Description |
|-------------|---|
| 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)(1) | 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. |

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- 3(ii)(2) Certificate of Amendment to the Certificate of Incorporation of the Company to effectuate a 1 for 20 reverse stock split of the Company's issued and outstanding shares of common stock, incorporated herein by reference to the Company's Form 8-K dated April 24, 2008.
- 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.

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- 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.
- 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

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- 31.2 Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
- 32.1 Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002
- 10.1 Consulting Agreement with Nataliya Hearn dated as of January 4, 2007.
- 10.2 Consulting Agreement with David Sindalovsky dated as of September 15, 2007.
- 10.3 Consulting Agreement with John Grippo dated as of January 4, 2007.
- 10.4 Common Stock Purchase Warrant agreement with Nataliya Hearn dated as of January 4, 2007.

SIGNATURE

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

Element 21 Golf Company

February 12, 2009

By:

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

February 12, 2009

By:

/s/ David Khazak
Chief Financial Officer