

ELEMENT 21 GOLF CO
Form 10QSB
May 21, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2004

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 0-15260

Element 21 Golf Company
(Exact name of small business issuer as specified in its charter)

Delaware *88-0218411*
(State or other jurisdiction of incorporation or organization) (Internal Revenue Service Employer Identification No.)

200 Perimeter Road, Manchester, NH 03103

(Address of principal Executive offices Zip Code)

(603) 641-8443

Issuer's telephone number, including area code

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date, 62,193,302 shares of common stock, par value \$.01 per share as of May 14, 2004.

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

*Element 21 Golf Company
(formerly BRL Holdings, Inc.)*

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Part 1. Financial Information

ITEM 1. Financial Statement

ELEMENT 21 GOLF COMPANY

(Formerly BRL HOLDINGS, INC.)

(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED BALANCE SHEETS

March 31, 2004 and June 30, 2003

	March 31, 2004 (Unaudited)	June 30, 2003
ASSETS		
<i>Current Assets:</i>		
<i>Cash</i>	\$ 1,317	\$ 89
<i>Inventories</i>	125,000	-
<i>Other receivables</i>	133,907	19,500
<i>Prepaid expenses and other current assets</i>	120,000	-
<i>Total current assets</i>	380,224	19,589
<i>Property, plant and equipment</i>	267,000	-
<i>Other assets:</i>		
<i>Investments</i>	10,626	2,717
<i>Total assets</i>	\$ 657,850	\$ 22,306

LIABILITIES AND STOCKHOLDERS'

EQUITY (DEFICIENCIES)

Current liabilities:

<i>Accounts payable</i>	\$ 355,394	\$ 252,190
<i>Accounts payable – related party</i>	20,687	20,687
<i>Accrued expenses</i>	363,562	558,771
<i>Total current liabilities</i>	739,643	831,648

<i>Other liabilities – related party</i>	392,000	-		
			557	533
Deferred income taxes	148		69	79
Prepaid expenses/deferred charges	23		23	0
Noncurrent assets	3,949		3,179	770
Total assets	10,377		9,503	874

Liabilities, Minority interests and Shareholders equity

	12/31/2007	12/31/2006	D
Accounts payable	715	610	105
Income tax obligations	347	297	50
Other liabilities, provisions	1,659	1,461	198
Deferred income	474	405	69
Liabilities held for sale	10	0	10
Current liabilities	3,205	2,773	432
Accounts payable	10	34	-24
Income tax obligations	164	83	81
Other liabilities, provisions	448	412	36
Deferred income	42	55	-13
Total liabilities	3,869	3,357	512
Minority interests	1	10	-9
Shareholders equity	6,507	6,136	371
Total liabilities, Minority interests and Shareholders equity	10,377	9,503	874
Days Sales Outstanding	66	68	

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	2007	2006
Net income	1,923	1,871
Net income from discontinued operations	14	10
Minority interests	2	2
Income from continuing operations before minority interests	1,939	1,883
Adjustments to reconcile income before minority interests to net cash provided by operating activities:		
Depreciation and amortization	260	214
Loss (income) from equity investees	1	1
Loss on disposal of intangible assets and property, plant, and equipment	1	-2
Gains on disposal of investments	-2	0
Write-ups/downs of financial assets	8	0
Impacts of STAR hedging	21	-79
Stock-based compensation including income tax benefits	13	82
Excess tax benefit from stock-based compensation	0	-3
Deferred income taxes	5	-2
Change in accounts receivables	-512	-268
Change in other assets	-296	-215
Change in accrued and other liabilities	430	129
Change in deferred income	117	115
Net cash provided by operating activities from continuing operations	1,985	1,855
Acquisition of minority interests in subsidiaries	-48	0
Business combinations, net of cash and cash equivalents acquired (including prepayments)	-670	-504
Purchase of intangible assets and property, plant, and equipment	-404	-365
Proceeds from disposal of intangible assets and property, plant and equipment	35	29
Cash transferred to restricted cash accounts	-550	0
Purchase of investments	-768	-2,055
Sales of investments	1,025	2,765
Purchase of other financial assets	-20	-17
Sales of other financial assets	15	15
Net cash used in/provided by investing activities from continuing operations	-1,385	-132
Dividends paid	-556	-447
Purchase of treasury stock	-1,005	-1,149
Proceeds from reissuance of treasury stock	156	165
Proceeds from issuance of common stock (stock-based compensation)	44	49
Excess tax benefit from stock-based compensation	0	3
Repayment of bonds	0	-1
Proceeds from short-term and long-term debt	47	44
Repayments of short-term and long-term debt	-48	-43
Proceeds from the exercise of equity-based derivative instruments (STAR hedge)	75	57
Purchase of equity-based derivative instruments (STAR hedge)	0	-53
Net cash used in financing activities from continuing operations	-1,287	-1,375

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	2007	2006
Effect of foreign exchange rates on cash and cash equivalents	-51	-3
Net cash used in operating activities from discontinued operations	-18	-8
Net cash used in investing activities from discontinued operations	-1	-2
Net cash used in financing activities from discontinued operations	0	0
Net cash used in discontinued operations	-19	-10
Net change in cash and cash equivalents	-757	335
Cash and cash equivalents at the beginning of the period	2,399	2,064
Cash and cash equivalents at the end of the period	1,642	2,399

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FOOTNOTES

1) All numbers in this document are based on U.S. GAAP (except for numbers identified as Non GAAP measures in footnote number 2 of Non GAAP measure footnote number 2). As required under U.S. GAAP discontinued operations are reported separately in the income statement for all periods presented. Consequently, all revenue numbers and all income numbers, unless labeled from discontinued operations, only reflect revenue and income from continuous operations.

2) Non-GAAP Financial Measures

This document discloses certain financial measures, such as Non-GAAP revenues, Non GAAP-operating income, Non-GAAP operating margin, free cash flow, and constant currency period-over-period changes in revenue and operating income, that are not prepared in accordance with U.S. GAAP and are therefore considered non-GAAP financial measures. Our non-GAAP financial measures may not correspond to non-GAAP financial measures that other companies report. The non-GAAP financial measures that we report should be considered as additional to, and not as substitutes for or superior to, revenue, operating income, cash flows, or other measures of financial performance prepared in accordance with U.S. GAAP. This footnote explains and reconciles our non-GAAP financial measures to the nearest U.S. GAAP measure.

NON-GAAP REVENUES, NON-GAAP OPERATING INCOME AND NON-GAAP OPERATING MARGIN

We believe that it is of interest to investors to receive certain supplemental historical and prospective financial information used by our management in running our business in addition to financial data prepared in accordance with U.S. GAAP. Beginning in 2008 we intend to use both Non GAAP revenues and Non GAAP operating income and margin as defined below consistently in our planning, forecasting, reporting, compensation and external communication:

Non-GAAP revenue: Revenues in this document identified as Non-GAAP revenue have been adjusted from the respective U.S. GAAP numbers by including the full amount of Business Objects support revenues that would have been reflected by Business Objects had it remained a stand-alone entity but are not permitted to be reflected as revenues under U.S. GAAP as a result of fair value accounting for Business Objects support contracts in effect at the time of the Business Objects acquisition.

Under U.S. GAAP we will record at fair value the Business Objects support contracts in effect at the time of the acquisition of Business Objects. Consequently, our U.S. GAAP support revenues, our U.S. GAAP software and software related service revenues and our U.S. GAAP total revenues for periods subsequent to the Business Objects acquisition will not reflect the full amount of support revenue that Business Objects would record for these support contracts absent the acquisition by SAP. Adjusting revenue numbers for this one-time revenue impact provides additional insight into our ongoing performance because the support contracts are typically one-year contracts and renewals of these contracts are expected to result in revenues that are not impacted by the business combination-related fair value accounting.

We believe that our Non-GAAP revenue numbers have limitations, particularly as the eliminated amounts may be material to us. We therefore do not evaluate our growth and performance without considering both Non-GAAP revenues and U.S. GAAP revenues. We caution the

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readers of this document to follow a similar approach by considering our Non-GAAP revenues only in addition to, and not as a substitute for or superior to, revenues or other measures of our financial performance prepared in accordance with U.S. GAAP.

Non-GAAP operating income / Non GAAP operating margin: Operating income and operating margin in this document identified as Non-GAAP operating income or Non-GAAP operating margin have been adjusted from the respective operating income and operating margin numbers as recorded under U.S. GAAP by including the full amount of Business Objects support revenues to be included in Non-GAAP revenue, and by excluding acquisition-related charges. Acquisition related charges in this context comprise:

Amortization expense of intangibles acquired in business combination and standalone acquisitions of intellectual property

Expense from purchased in-process research and development

Restructuring expenses as far as incurred in connection with a business combinations and accounted for under SFAS 146 in SAP's U.S. GAAP financial statements

Although acquisition-related charges include recurring items from past acquisitions, such as amortization of acquired intangible assets, they also include an unknown component, relating to current-year acquisitions. We cannot accurately assess or plan for that unknown component until we have finalized our purchase price allocation. Furthermore acquisition-related charges may include one-time charges that are not reflective of our ongoing operating performance.

We believe that our Non-GAAP financial measures described above have limitations, particularly as the eliminated amounts may be material to us. We therefore do not evaluate our growth and performance without considering both Non-GAAP operating income and margin numbers and U.S. GAAP operating income and margin numbers. We caution the readers of this document to follow a similar approach by considering our Non-GAAP operating income and margin numbers only in addition to, and not as a substitute for or superior to, revenues or other measures of our financial performance prepared in accordance with U.S. GAAP..

The Non-GAAP revenues and Non GAAP operating income and margin data reported in this document reconcile to the nearest U.S. GAAP measure as follows:

	GAAP measure	Business Objects support revenues not recorded under US-GAAP	Acquisition related charges	Non-GAAP measures
Software and software related service revenue	7,428			7,428
Total revenue	10,245			10,245
Total operating expenses	-7,510		61	-7,449
Operating income	2,735		61	2,796
Operating margin	26.7%			27.3%

Table of Contents***SAP Reports Strong Growth in Software and Software Related Service Revenues for 2007****Page 17***FREE CASH FLOW:**

We believe that free cash flow is a widely accepted supplemental measure of liquidity. Free cash flow measures a company's cash flow remaining after all expenditures required to maintain or expand the business have been paid off. We calculate free cash flow as operating cash flow from continuing operations minus additions to long-lived assets excluding additions from acquisitions. Free cash flow should be considered in addition to, and not as a substitute for or superior to, cash flow or other measures of liquidity and financial performance prepared in accordance with U.S. GAAP.

Free cash flow reconciles to the nearest U.S. GAAP measure as follows:

Reconciliation for twelve months ended December 31

In millions

	2007	2006
Net cash provided by operating activities from continuing operations	1,985	1,855
Additions to long-lived assets excluding additions from acquisitions	-404	-365
Free cash flow	-1,581	1,490

Constant Currency Period-Over-Period Changes

We believe it is important for investors to have information that provides insight into our sales growth. Revenue measures determined under U.S. GAAP provide information that is useful in this regard. However, both growth in sales volume and currency effects impact period-over-period changes in sales revenue. We do not sell standardized units of products and services, so we cannot provide relevant information on sales volume growth by providing data on the growth in product and service units sold. To provide additional information that may be useful to investors in breaking down and evaluating sales volume growth, we present information about our revenue growth and various values and components relating to operating income that are adjusted for foreign currency effects. We calculate constant currency year-over-year changes in revenue and operating income by translating foreign currencies using the average exchange rates from the previous (comparator) year instead of the report year.

We believe that data on constant currency period-over-period changes have limitations, particularly as the currency effects that are eliminated constitute a significant element of our revenues and expenses and may severely impact our performance. We therefore limit our use of constant currency period-over-period changes to the analysis of changes in volume as one element of the full change in a financial measure. We do not evaluate our growth and performance without considering both constant currency period-over-period changes on the one hand and changes in revenues, expenses, income, or other measures of financial performance prepared in accordance with U.S. GAAP on the other. We caution the readers of this document to follow a similar approach by considering data on constant currency period-over-period changes only in addition to, and not as a substitute for or superior to, changes in revenues,

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expenses, income, or other measures of financial performance prepared in accordance with U.S. GAAP. Constant currency year-over-year changes in revenue and operating income reconcile to the respective unadjusted year-over-year changes as follows:

Reconciliation of constant currency period-over-period changes for three months ended December 31

	Percentage change from 2006 to 2007 as reported	Constant currency percentage change from 2006 to 2007	Currency effect Percentage points
	%	%	
Software revenue	14	18	-4
Support revenue	10	14	-4
Subscription and other software related service revenue	47	53	-6
Software and software related service revenue	13	17	-4
Consulting revenue	0	4	-4
Training revenue	5	9	-4
Other service revenue	7	15	-8
Professional services and other service revenue	1	5	-4
Other revenue	56	69	-13
Total revenue	10	14	-4
Software revenue by region*:			
EMEA region	12	14	-2
Americas region	9	17	-8
Asia Pacific Japan region	40	44	-4
Software revenue	14	18	-4
Software and software related service revenue by region:			
Germany	11	11	0
Rest of EMEA region	15	17	-2
EMEA region	13	14	-1
United States	2	14	-12
Rest of Americas region	23	24	-1
Americas region	7	16	-9
Japan	15	22	-7
Rest of Asia Pacific Japan region	36	38	-2
Asia Pacific Japan region	28	32	-4
Software and software related service revenue	13	17	-4
Total revenues by region:			
Germany	8	8	0
Rest of EMEA region	12	14	-2

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	Percentage change from 2006 to 2007 as reported	Constant currency percentage change from 2006 to 2007	Currency effect Percentage points
	%	%	
EMEA region	10	12	-2
United States	3	15	-12
Rest of Americas region	16	17	-1
Americas region	6	15	-9
Japan	7	15	-8
Rest of Asia Pacific Japan region	27	29	-2
Asia Pacific Japan region	19	24	-5
Total revenue	10	14	-4
Operating Income	2	7	-5

*) Based on customer location

Reconciliation of constant currency period-over-period changes for twelve months ended December 31

	Percentage change from 2006 to 2007 as reported	Constant currency percentage change from 2006 to 2007	Currency effect Percentage points
	%	%	
Software revenue	13	18	-5
Support revenue	11	15	-4
Subscription and other software related service revenue	41	46	-5
Software and software related service revenue	13	17	-4
Consulting revenue	-1	3	-4
Training revenue	7	11	-4
Other service revenue	18	23	-5
Professional services and other service revenue	1	4	-3
Other revenue	3	7	-4
Total revenue	9	13	-4
Software revenue by region*:			
EMEA region	14	15	-1

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Americas region	8	16	-8
Asia Pacific Japan region	28	32	-4
Software revenue	13	18	-5
Software and software related service revenue by region:			
Germany	7	7	0
Rest of EMEA region	17	19	-2
EMEA region	13	14	-1
United States	6	16	-10
Rest of Americas region	18	22	-4
Americas region	9	17	-8

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	Percentage change from 2006 to 2007 as reported	Constant currency percentage change from 2006 to 2007	Currency effect Percentage points
	%	%	
Japan	10	21	-11
Rest of Asia Pacific Japan region	25	26	-1
Asia Pacific Japan region	19	24	-5
Software and software related service revenue	13	17	-4
Total revenue by region:			
Germany	5	5	0
Rest of EMEA region	13	15	-2
EMEA region	10	11	-1
United States	4	13	-9
Rest of Americas region	12	15	-3
Americas region	6	14	-8
Japan	4	14	-10
Rest of Asia Pacific Japan region	22	24	-2
Asia Pacific Japan region	15	20	-5
Total revenue	9	13	-4
Operating Income	6	11	-5

*) Based on customer location

3) Core Enterprise Applications Vendor Share

Beginning in the first quarter of 2007, the Company began using software and software related service revenues for defining Core Enterprise Application Vendor Share because the Company believes that this is the most important indicator for vendor share oriented analysis with the realignment of its income statement structure. Prior to the first quarter of 2007, the Company had been using software revenues for defining Core Enterprise Application Vendor Share.

The Company provides share data based on the vendors of Core Enterprise Applications solutions, which account for approximately \$36.7 billion in software and software related service revenues as defined by the Company based on industry analyst research. For 2007, industry analysts project approximately 7% year-on-year growth for core Enterprise Applications vendors. For its quarterly share calculation, SAP assumes that this approximate 7% growth will not be linear throughout the year. Instead, quarterly adjustments are made based on the financial performance of a sub set (approximately 25) of Core Enterprise Application vendors.