

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

GOLFGEAR INTERNATIONAL INC
Form 10QSB/A
April 16, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB
To
Amendment #3

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

For the Quarterly Period Ended September 30, 2002

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

For the transition period from _____ to _____

Commission File Number: 0-28007

GOLFGEAR INTERNATIONAL, INC.

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

Nevada

43-1627555

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

5285 Industrial Drive, Huntington Beach, California 92649

(Address of principal executive offices)

(714) 899-4274

(Issuer's telephone number)

Not applicable

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

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

As of September 30, 2002, the Company had 34,586,454 shares of common stock issued and outstanding.

Transitional Small Business Disclosure Format: Yes No

Documents incorporated by reference: None.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Consolidated Balance Sheets - September 30, 2002
(Unaudited) and December 31, 2001

Consolidated Statements of Operations (Unaudited) - Three
Months and Nine Months Ended September 30, 2002 and 2001

Consolidated Statements of Cash Flows (Unaudited) - Nine
Months Ended September 30, 2002 and 2001

Notes to Consolidated Financial Statements (Unaudited) -
Nine Months Ended September 30, 2002 and 2001

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

PART II. OTHER INFORMATION

Item 1 - Legal proceedings

Item 2 - Recent sales of unregistered

Item 6 - Exhibits and reports on form 8-K

SIGNATURES

EXHIBIT

2

GolfGear International, Inc. and Subsidiaries Consolidated Balance Sheets

	September 30, 2002	December 31, 2001
	-----	-----
	(Unaudited)	
ASSETS		
Current assets:		
Cash	\$ 390,664	\$ 120,135
Accounts receivable, net of allowance for doubtful accounts of \$76,754, and \$78,337 at September 30, 2002, and December 31, 2001, respectively	150,694	335,755
Inventories	489,902	691,265
Prepaid expenses	155,032	22,450

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

Total current assets	1,186,292	1,169,605
Property and equipment, net of accumulated depreciation	102,209	128,754
Other assets:		
Patents and trademarks, net of accumulated amortization	68,780	83,922
Deferred financing costs, net	401,375	---
Deposits and other assets	246,384	12,400
	716,539	96,322
Total assets	\$ 2,005,040	\$ 1,394,681

(continued)

3

GolfGear International, Inc. and Subsidiaries
Consolidated Balance Sheets (continued)

	September 30, 2002	December 31, 2001
	(Unaudited)	
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	\$ 599,161	\$ 1,127,427
Income tax payable	1,600	8,000
Accrued product warranties	113,194	101,593
Accrued interest payable	50,154	8,438
Accrued officers' compensation	10,000	90,961
Bank credit line payable	47,921	57,100
Notes payable to stockholders	---	97,166
Notes payable, current portion	83,177	69,091
Deferred Revenue	75,000	
Total current liabilities	980,207	1,559,776
Non-current liabilities:		
Note payable	---	50,000
Convertible debentures, net of discount \$404,396	1,695,604	---
Stockholders' deficit:		
Common stock, \$0.001 par value; Authorized - 50,000,000 shares		

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

Issued and outstanding - 34,586,454 shares and 17,989,454 shares at September 30, 2002 and December 31, 2001, respectively	34,586	17,989
Additional paid-in capital	11,625,193	8,901,273
Accumulated deficit	(11,392,175)	(9,134,357)
Total stockholders' deficit	267,604	(215,095)
Common stock purchase receivable note	(938,375)	---
	(670,771)	(215,095)
Total liabilities and stockholders' deficit	\$ 2,005,040	\$ 1,394,681
	=====	=====

See accompanying notes to consolidated financial statements.

4

GolfGear International, Inc. and Subsidiaries
Consolidated Statements of Operations (Unaudited)

	Three Months Ended September 30,	
	2002	2001
	-----	-----
Sales	\$ 296,785	\$ 417,362
Cost of goods sold	301,771	253,697
Gross profit	(4,986)	163,665
Expenses:		
Selling and marketing	258,385	67,948
Tour and pro contracts	46,137	31,848
Provision for bad debts	8,877	90,234
General and administrative	404,810	314,507
Depreciation and amortization	13,960	27,664
Total expenses	732,169	532,201
Loss from operations	(737,155)	(368,536)
Other income (expense):		
Gain on settlement of accounts payable	69,654	---
Interest income	15,553	--
Interest expense	(675,675)	1,308

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

Other expense	---	---
Net loss	\$ (1,327,623)	\$ (367,228)
Net loss applicable to common stockholders:		
Net loss	\$ (1,327,623)	\$ (367,228)
Less dividends on Series A Senior Convertible Preferred Stock	---	(34,494)
Net loss applicable to common stockholders	\$ (1,327,623)	\$ (401,722)
Net loss per common share - Basic and diluted	\$ (0.04)	\$ (0.03)
Weighted average number of common shares outstanding - basic and diluted	34,586,154	15,539,154

See accompanying notes to consolidated financial statements.

5

GolfGear International, Inc. and Subsidiaries
Consolidated Statements of Operations (Unaudited)

	Nine Months Ended September 30,	
	2002	2001
Sales	\$ 1,060,631	\$ 1,728,887
Cost of goods sold	865,993	970,336
Gross profit	194,638	758,551
Expenses:		
Selling and marketing	512,342	284,728
Tour and pro contracts	64,804	86,911
Provision for bad debts	31,792	149,945
General and administrative	998,419	897,960
Depreciation and amortization	43,844	82,919
Total expenses	1,651,201	,502,463
Loss from operations	(1,456,563)	(743,912)

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

Other income (expense):		
Gain settlement of accounts payable	69,654	---
Interest income	22,265	930
Interest expense	(886,405)	(12,651)
Other expenses	(26,769)	---
	-----	-----
Net loss	\$ (2,257,818)	\$ (755,633)
	=====	=====
Net loss applicable to common stockholders:		
Net loss	\$ (2,257,818)	\$ (755,633)
Less dividends on Series A Senior Convertible Preferred Stock	---	(99,667)
	-----	-----
Net loss applicable to common stockholders	\$ (2,257,818)	\$ (855,300)
	=====	=====
Net loss per common share -		
Basic and diluted	\$ (0.09)	\$ (0.06)
	=====	=====
Weighted average number of common shares outstanding -		
basic and diluted	25,888,071	15,315,080
	=====	=====

See accompanying notes to consolidated financial statements.

6

GolfGear International, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2002	2001
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (2,257,818)	\$ (755,633)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Accrued interest income	(13,400)	
Depreciation and amortization	43,842	82,919
Provision for obsolete inventory	193,763	---
Amortization of deferred financing costs	114,679	---

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

Deferred revenue	75,000	
Amortization of beneficial conversion feature	698,501	
Provision for bad debts	31,792	149,945
Gain on settlement of accounts payable	(69,654)	---
Fair value of stock options and warrants issued to non-employees	19,250	66,872
Loss on disposal of assets	26,769	---
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	153,269	46,799
Inventories	7,600	142,843
Prepaid expenses	(151,830)	34,162
Deposits	(233,984)	(21,877)
Increase (decrease) in:		
Accounts payable and accrued expenses	(465,013)	237,357
Accrued product warranties	11,601	12,996
Accrued interest payable	41,716	7,743
Accrued officer's compensation	(80,961)	24,000
	-----	-----
Net cash provided by (used in) operating activities	(1,854,878)	28,126
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	(28,925)	(90,881)
	-----	-----
Net cash used in investing activities	(28,925)	(90,881)
	-----	-----

(continued)

7

GolfGear International, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited) (continued)

	Nine Months Ended September 30,	
	2002	2001
	-----	-----
Cash flows from financing activities:		
Increase (decrease) in notes payable to stockholders	\$ (97,166)	\$ 26,666
Decrease in bank credit line	(9,179)	---
Proceeds from sale of convertible debentures	2,100,000	---
Deferred financing costs	(3,434)	---
Proceeds from short-term borrowings	---	29,000

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

Repayments of short-term borrowings	(35,914)	(6,220)
Proceeds from sale of common stock	200,025	---
	-----	-----
Net cash provided by (used in) financing activities	2,154,332	49,446
	-----	-----
Cash:		
Net increase	270,529	(13,309)
At beginning of period	120,135	39,754
	-----	-----
At end of period	\$ 390,664	\$ 26,445
	=====	=====
Non-cash Transactions:		
Deferred financial costs	\$ (516,054)	---
	=====	=====
Settlement of accounts payable	\$ 183,524	---
New note issued	100,000	---
Value of stock issued	26,250	---
	-----	-----
Gain on settlement of accounts payable	\$ 69,654	---
	=====	=====
Other Cash Information:		
Interest paid	\$ 11,509	---
	=====	=====

See accompanying notes to consolidated financial statements.

8

See accompanying notes to consolidated financial statements.

GolfGear International, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
Nine Months Ended September 30, 2002 and 2001

1. Basis of Presentation

The accompanying consolidated financial statements have been prepared by GolfGear International, Inc. and subsidiaries (collectively, "GolfGear" or the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These consolidated financial statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary for a fair presentation of the balance sheets, operating results, and cash flows for the periods presented. Operating results for the three and nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2002. Certain financial information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted in accordance with the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements, and

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

accompanying notes, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001. The consolidated balance sheet at December 31, 2001 has been derived from the audited consolidated financial statements at that date.

The preparation of financial statements in conformity with generally accepted accounting principles 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.

9

Organization and Description of Business - The Company designs, develops and markets premium golf clubs and related golf products utilizing its proprietary forged face insert technology.

The golf club industry is highly seasonal, with most companies experiencing up to 60% of their annual sales between February and June, with an additional 20% of their annual sales occurring between October and December for the Christmas buying season.

The Company is attempting to increase revenues through various means, including expanding brands and product offerings, new marketing programs, and the production of an infomercial, which it hopes will air in early December. These types of programs take time to develop and the results of any successful program may not be apparent in the Company's revenues for 2002.

The Company has raised \$2,300,025 in new capital, and is currently attempting to raise additional capital but there can be no assurances that the Company will be successful in this regard. To the extent that the Company is unable to secure the capital necessary to fund its future cash requirements on a timely basis and/or under acceptable terms and conditions, the Company may have to reduce its operations to a level consistent with its available working capital resources.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, GearFit Golf Company, Pacific Golf Holdings, Inc., Bel Air - Players Group, Inc. and Leading Edge Acquisition, Inc. All significant intercompany transactions and balances have been eliminated in consolidation.

Loss Per Share - Basic earnings per share are calculated by dividing net loss applicable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution that would occur if stock options, and warrants were exercised. These potentially dilutive securities were anti-dilutive for all periods presented, and accordingly, basic and diluted earnings per share are the same for all periods presented. As of September 30, 2002 and 2001, potentially dilutive securities consisted of outstanding stock options and warrants to acquire 3,179,721 shares and 2,622,789 shares of common stock, respectively.

2. Convertible Debentures

On June 6, 2002, GolfGear International, Inc. (the "Company") completed the sale of \$2,100,000 of convertible debentures. The debentures are convertible into common stock at \$0.25 per share for a period of twelve (12) months commencing six (6) months after the initial sale of the debentures. The debentures are secured by the Company's patents. For each share of common stock issued upon conversion of the debentures, one (1) common stock purchase warrant will be

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

issued, which will be exercisable for a period of eighteen (18) months at \$0.10

10

per share. The costs associated with the issuance of the Debentures have been capitalized and are being amortized over the 18 months. If the Debentures convert to equity prior to the 18-month term the unamortized portion will be debited to additional paid in capital. The Company has not recognized any expense for the warrants at this time because the warrants are only issued when and if the debentures convert to stock. At that point the company will treat the value of the warrants as a cost of equity.

Pursuant to the terms of this financing, on June 11, 2002 Wyngate's President, Peter H. Pocklington, was appointed as Chairman of the Board of Directors and Chief Executive Officer. The financing also provides for Wyngate to appoint a majority of the Board of Directors of the Company. To this end Wyngate has appointed Roger Miller, Dean Reinmuth and Michael Piraino, the Company's president, Chief Operating Officer and Chief Financial Officer.

3. Stockholders' Equity

For the three months ended September 30, 2001, 3,633 shares of Series A Senior Convertible Preferred Stock were issued as payment of dividends of \$34,494.

For the nine months ended September 30, 2001, 10,625 shares of Series A Senior Convertible Preferred Stock were issued as payment of dividends of \$99,667.

During the nine months ended September 30, 2002 the Company canceled 105,000 shares issued to a former employee and issued 5,000 shares in consideration for an extension granted on a certain note payable.

On March 23, 2002 the Company entered into an agreement for the sale of 15,000,000 shares of its common stock, for \$1,125,000, at which time \$200,025 was received in cash and \$924,975 in a promissory note with interest at 2.88% per annum. Pursuant to the promissory note, the balance is due and payable October 8, 2003. The promissory note is secured by a stock pledge agreement, which pledges 12,333,000 shares of the common stock, which shall be held by the Company as security for payment of the promissory note. For a period of eighteen (18) months from closing, Peter H. Pocklington shall have the right to have the Company acquire Meditron Medical, Inc., a Canadian corporation engaged in the medical manufacturing and sales business controlled by him, in a reverse merger transaction through the issuance of shares of common stock of the Company only, with an agreed value of Twenty Five Cents (\$0.25) per share. The value of the medical products company shall be determined by obtaining a fairness opinion from a reputable investment-banking firm.

On May 30, 2002, the Company entered into a settlement agreement and mutual general release (the "Settlement Agreement") with MC Corporation. The Settlement Agreement provided that the Company issue a total of 3,000,000 shares of common stock to MC Corporation, of which 2,450,330 shares have already been reflected as issued and outstanding in the Company's financial statements at December 31, 2001 and March 31, 2002. The additional 549,700 shares of common stock are reflected as issued and outstanding in the June 30 2002.

11

On June 6, 2002 the Company completed the sale of \$2,000,000 of convertible debentures. The debentures are convertible into common stock at \$0.25 per share

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

for a period of twelve (12) months commencing six (6) months after the initial sale of the debentures. As part of this financing, the Company issued 1,072,000 shares of its common stock as a finder's fee.

Effective June 30, 2002 the Company issued 75,000 shares of common stock as part of accounts payable settlement on a debt of \$183,524. The Company recorded note payable of \$100,000 and a gain of \$69,654. The Stock was valued at the current market price of \$26,250.

On September 13, 2002 the Company, and ThinkTank Holdings LLC, mutually agreed to terminate ThinkTank's pending \$3 million equity investment in GolfGear. The Company paid ThinkTank Holdings LLC, a \$25,000 termination fee and executed a mutual release.

4. Segments and Geographic Information;

The Company operates in one business segment. The Company sells to customers in the United States, and internationally. During the three months ended September 30, 2002, sales to customers in the United States, and the rest of the world were \$262,799, and \$33,088, respectively. During the three months ended September 30, 2001, sales to customers in the United States, and the rest of the world were \$360,331, and \$57,031 respectively. The three months ended September 30, 2002 Sales included \$75,898 in royalties. There were no royalties in 2001.

During the nine months ended September 30, 2002, sales to customers in the United States, and the rest of the world were \$981,785, and \$77,948, respectively. During the nine months ended September 30, 2001, sales to customers in the United States, and the rest of the world were \$1,360,493, and \$368,394 respectively. The nine months ended September 30, 2002 Sales included \$75,898 in royalties. There were no royalties in 2001.

5. Inventories

At September 30, 2002 and December 31, 2001, inventories consist of the following:

	2002	2001
	-----	-----
Components parts	\$ 261,146	\$482,024
Finished goods	374,503	254,905
	-----	-----
	635,649	736,929
Reserve for obsolescence	(145,747)	(45,664)
	-----	-----
	\$ 489,902	\$691,265
	=====	=====

6. Legal Proceedings

On November 17, 2001, MC Corporation, a Japanese corporation, filed an action against the Company in the United States District Court, Central District of California. MC Corporation had purchased 210,526 shares of Series A Senior Convertible Preferred Stock in October 1999 for \$2,000,000 that, combined with

the 34,504 shares of preferred stock received as dividends and pursuant to an anti-dilution provision, automatically converted into 2,450,300 shares of common

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

stock in October 2001 pursuant to a subscription agreement dated September 1, 1999 (the "Subscription Agreement"). MC Corporation contended that it was entitled to approximately an additional 8,500,000 shares of common stock based on its interpretation of the reset provision contained in the Subscription Agreement. The Company filed a cross-complaint against MC Corporation for reformation of the Subscription Agreement to conform it to the mutual understanding of the parties at the time it was executed.

MC Corporation had also been the exclusive distributor of the Company's products in Japan since September 1999. Effective March 5, 2002, the Company terminated its distribution agreement with MC Corporation as a result of MC Corporation's failure to comply with the terms of the distribution agreement.

On May 30, 2002, the Company entered into a settlement agreement and mutual general release (the "Settlement Agreement") with MC Corporation, John Kura and Keizaikai USA, Inc. (hereinafter collectively referred to as the "MC Corporation parties"). The Settlement Agreement provides that the Company issue a total of 3,000,000 shares of common stock to MC Corporation, consisting of 2,450,300 shares of common stock for the conversion at (the specified ten to one conversion rate) of 245,030 shares of convertible preferred stock previously issued to MC Corporation, and an additional 549,700 shares of common stock for other consideration. The 2,450,330 shares have already been reflected as issued and outstanding in the Company's financial statements at December 31, 2001 and March 31, 2002. The additional 549,700 shares of common stock are reflected as issued and outstanding in the June 30 2002. The Company was given the right of first refusal to repurchase any shares of common stock owned by MC Corporation it may desire to sell in a private transaction for a period of eighteen (18) months from the date of execution of the Settlement Agreement. All stock options and warrants owned by the MC Corporation parties were cancelled and MC Corporation's anti-dilution rights arising under the Settlement Agreement were terminated. The Settlement Agreement also provides that MC Corporation's representative on the Company's Board of Directors will resign, and the Company's distribution agreement with MC Corporation was formally terminated.

The MC Corporation parties agreed to restrict the sale of their shares of common stock in a public transaction for a period of eighteen (18) months as follows: no sale of shares shall be made during the first six (6) months; during the second six (6) months, the MC Corporation parties agreed to sell no more than fifty percent (50%) of the limitation on volume restrictions contained in Rule 144(e) of the Securities Act of 1933, as amended; during the third six (6) month period, all sales must be made in compliance with the volume limitations contained in Rule 144(e).

13

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:

This Quarterly Report on Form 10-QSB for the quarterly period ended September 30, 2002 contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, including statements that include the words "believes", "expects", "anticipates", or similar expressions. These forward-looking statements include, among others, statements concerning the Company's expectations regarding its working capital requirements, gross margin, results of operations, business, growth prospects, competition and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The forward-looking statements included in this Quarterly

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

Report on Form 10-QSB for the quarterly period ended September 30, 2002 involve known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements of the Company to differ materially from those expressed in or implied by the forward-looking statements contained herein.

Overview:

The Company designs, develops and markets premium golf clubs and related golf products. The Company utilizes its proprietary forged face insert technology to offer a full line of golf equipment. The Company's patent portfolio with respect to insert technology is the largest and most comprehensive in the golf industry, with nine domestic and foreign patents issued related to forged face insert technology. These patents incorporate a wide variety of forged face insert materials, including titanium, beryllium copper, stainless steel, carbon steel, aluminum, and related alloys thereof, and include technology relating to varying the face thickness of the insert.

The Company operates in one business segment. The Company sells to customers in the United States, the Far East and Europe.

The golf club industry is highly seasonal, with most companies experiencing up to 60% of their annual sales between February and June, with an additional 20% of their annual sales occurring between October and December for the Christmas buying season.

The consolidated financial statements include the accounts of the Company and its direct and indirect wholly owned subsidiaries, Gear Fit Golf Company, Pacific Golf Holdings, Inc., Bel Air-Players Group, Inc. and Leading Edge Acquisition, Inc. All significant inter-company transactions and balances have been eliminated in consolidation.

The Company is attempting to increase revenues through various means, including expanding product offerings, new marketing programs, and the production of an infomercial, which it hopes will air in early December. These types of programs take time to develop and the results of any successful program may not be apparent in the Company's revenues for 2002.

The Company has raised \$2,300,025 in new capital, and is currently attempting to raise additional capital but there can be no assurances that the Company will be successful in this regard. To the extent that the Company is unable to secure the capital necessary to fund its future cash requirements on a timely basis and/or under acceptable terms and conditions, the Company may have to substantially reduce its operations to a level consistent with its available working capital resources.

14

GOLFGEAR INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

RESTATEMENT OF THE NINE MONTHS ENDED SEPTEMBER 30, 2002

As described in Note 2 on June 6, 2002, the Company completed the sale of \$2,100,000 of convertible debentures. At the time the convertible debentures were sold they contained a conversion feature that was beneficial to the holders based on the then current market value of the Company's common stock. Under the guidance of EITF 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

Adjustable Conversion Ratios", the Company is required to discount the debt for the value of the conversion feature, and amortize the discount to interest expense over the period that the debt first becomes convertible.

In September, 2002, the Company received a \$75,000 non-refundable advance from a license of the Company's technology. The Company is recording the advance as deferred revenue and will recognize revenue over the term of the agreement.

The effect of these restatements is shown in the following tables:

CONSOLIDATED BALANCE SHEET:	September 30, 2002		
	As Originally Reported	Restatement Adjustment	As Restated
Convertible Debt	2,100,000	(404,396)	1,695,604
Deferred Revenue	0	75,000	75,000
Stockholder's Equity	(900,084)	329,396	(570,688)
Consolidated Statement of Operations:	Three Months Ended September 30, 2002		
	As Originally Reported	Restatement Adjustment	As Restated
Sales	371,786	(75,000)	296,785
Gross Profit	70,014	(75,000)	(4,986)
Loss from Operations	(662,155)	(75,000)	(737,155)
Interest Expense	124,227	551,448	875,675
Net Loss	(701,175)	(626,448)	(1,327,623)
Net Loss per common share-			
Basic and diluted	(\$0.02)	(\$0.02)	(\$0.04)
Consolidated Statement of Operations:	Nine Months Ended September 30, 2002		
	As Originally Reported	Restatement Adjustment	As Restated
Sales	1,135,631	(75,000)	1,060,631
Gross Profit	269,638	(75,000)	194,638
Loss from Operations	(1,381,563)	(75,000)	(1,456,563)
Interest Expense	167,904	698,501	866,405
Net Loss	(1,484,317)	(773,501)	(2,257,818)
Net Loss per common share-			
Basic and diluted	(\$0.06)	(\$0.03)	(\$0.09)

Results of Operations

Three Months ended September 30, 2002 and 2001 -

Net sales decreased to \$371,785 in 2002 from \$417,362 in 2001, a decrease of \$45,577 or 10.9%. The Company's sales in the second and third quarter are generally re-orders. The lack of working capital in the first quarter delayed the production of inventory resulting in the loss of the initial sell-in. These initially lost sales result in the loss of re-orders significantly affecting the

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

Company's second and third quarter sales. The Company also believes that the decline in sales to its major customers has been caused by the general economic slowdown and the softness in the equipment industry. The 2002 Sales number included \$75,898 in royalties. There were no royalties in 2001.

Gross profit decreased to \$70,014 in 2002 from \$163,665 in 2001, and decreased as a percentage of net sales to 18.8% in 2002 from 39.2% in 2001. As the Company continues to redesign its product line and incorporate new technology it has chosen to provide a reserve against certain items in inventory - a total of \$100,083. As the retail prices of the Company's competitor's products continue to decline the Company may be forced to reduce its pricing to remain competitive and maintain its market share. Historically the Company has had gross margins in or about 45% of sales. In order to maintain these margins the Company will have to reengineer its processes and negotiate better pricing from its suppliers. To this end the Company has begun these efforts.

Selling and marketing expenses increased to \$258,385 in 2002 (69.5% of sales) from \$67,948 in 2001 (16.3% of sales), an increase of \$190,437 or 280.3%. Selling and marketing expenses increased in 2002 as compared to 2001 as a result of the Company's continued efforts to increase sales in 2002.

Tour and pro contract expenses decreased to \$46,137 in 2002 (12.4% of sales) from \$31,848 in 2001 (7.6% of sales), an increase of \$14,289 or 44.9%. Tour and pro contract expenses increased in 2002 as compared to 2001 as the Company has begun sponsoring select professional athletes.

General and administrative expenses increased to \$404,810 in 2002 (108.9% of sales) from \$314,507 in 2001 (75.4% of sales), an increase of \$90,303 (28.7%). The increases are chiefly due to increased legal expenses associated with raising new capital including \$25,000 paid to ThinkTank, LLC to secure a general release.

Depreciation and amortization decreased to \$13,980 in 2002 from \$27,664 in 2001, a decrease of \$13,705 or 49.5%. The decrease is a result of the write off of goodwill and certain other tangible assets at December 31, 2001.

16

Interest expense increased to \$551,448 in 2002. Interest expense increased due to the sale of the convertible debentures in June of 2002. The debenture bears interest at seven percent (7%). The sales of the debenture resulted in \$516,054 in capitalized financing costs. These costs are being amortized over the 18-month life of the debenture.

Bad debt expense decreased to \$8,877 in 2002 from \$90,234 in 2001, a decrease of \$81,357. The allowance in 2002 is being calculated at 3% of sales, exclusive of royalties, where as in 2001 specific accounts were being reserved.

Net loss was \$1,327,623 for the three months ended September 30, 2002, as compared to a net loss of \$367,228 for the three months ended September 30, 2001. An increased loss of \$960,395. The main factors in the increased loss were the decrease in sales, the increased inventory reserve for obsolescence write down, the increased marketing expenses and the increased legal fees and a non-cash charge for the beneficial discount feature of the convertible debenture.

Net Loss Applicable to Common Stockholders. During the three months ended September 30, 2001, the Company recorded preferred stock dividends of \$34,494, which were reflected as a return to the preferred stockholder and as an increase in the loss to common stockholders. The Company did not have preferred stock in 2002.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

Nine Months ended September 30, 2002 and 2001 -

Net sales decreased to \$1,135,631 in 2002 from \$1,728,887 in 2001, a decrease of \$593,256 or 34.3%. The Company's sales in the second and third quarter are generally re-orders. The lack of working capital in the first quarter delayed the production of inventory resulting in the loss of the initial sell-in. These initially lost sales resulted in the loss of re-orders significantly affecting the Company's second and third quarter sales. The Company believes that the decline in sales to its major customers is a result of the general economic slowdown and the softness in the equipment industry. The in 2002 Sales number included \$75,898 in royalties. There were no royalties in 2001.

Gross profit decreased to \$269,638 in 2002 from \$758,551 in 2001, 23.7% in 2002 from 43.9% in 2001. As the Company continues to redesign its product line and incorporate new technology it has chosen to provide a reserve against certain items in inventory - a total of \$193,764. As the retail prices of the Company's competitor's products continue to decline the Company may be forced to reduce it's pricing to remain competitive and maintain its market share. Historically the Company has had gross margins in or about 45% of sales. In order to maintain these margins the Company will have to reengineer its processes and negotiate better pricing from its suppliers. To this end the Company has begun these efforts.

Selling and marketing expenses increased to \$512,342 in 2002 (45.1% of sales) from \$284,728 in 2001 (16.5% of sales), an increase of \$227,614 or 79.9%. Selling and marketing expenses increased in 2002 as compared to 2001 as a result of the Company's continued efforts to increase sales in 2002.

Tour and pro contract expenses decreased to \$64,804 in 2002 (5.7% of sales) from \$86,911 in 2001 (5.0% of sales), a decrease of \$22,107 or 25.4%. Tour and pro contract expenses decreased in 2002 as compared to 2001 as previous obligations have expired and have not been renewed.

17

General and administrative expenses increased to \$998,419 in 2002 (87.9% of sales) from \$897,960 in 2001 (51.9% of sales), an increase of \$100,460 (11.2%). The increases are chiefly due to increased legal expenses associated with raising new capital including \$25,000 paid to ThinkTank, LLC to secure a general release.

Depreciation and amortization decreased to \$43,844 in 2002 from \$82,919 in 2001, a decrease of \$39,075 or 47.1%. The decrease is a result of the write off of goodwill and certain other tangible assets at December 31, 2001.

Interest expense increased to \$886,405 in 2002 from \$12,651 in 2001, an increase of \$873,754. Interest expense increased due to the sale of the convertible debentures in June of 2002. The debenture bears interest at seven percent (7%). The sales of the debenture resulted in \$516,054 in capitalized financing costs. These costs are being amortized over the 18-month life of the debenture.

Bad debt expense decreased to \$31,792 in 2002 from \$149,945 in 2001, a decrease of \$118,153. The allowance in 2002 is being calculated at 3% of sales, exclusive of royalties, where as in 2001 specific accounts were being reserved.

Net loss was \$2,257,818 for the nine months ended September 30, 2002, as compared to a net loss of \$755,633 for the nine months ended September 30, 2001. An increased loss of \$1,502,185 or 96.4%. The main factors in the increased loss were the decrease in sales, the increased inventory reserve for obsolescence write down, the increased marketing expenses and the increased legal fees and a

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

non-cash charge for the beneficial discount feature of the convertible debenture.

Net Loss Applicable to Common Stockholders. During the nine months ended September 30, 2001, the Company recorded preferred stock dividends of \$99,667, which were reflected as a return to the preferred stockholder and as an increase in the loss to common stockholders. The Company did not have preferred stock in 2002.

Liquidity and Capital Resources - September 30, 2002:

The Company has financed its working capital requirements during the past few years principally from the private placement of securities. Such funds have periodically been supplemented with short-term borrowings under the Company's bank line of credit and other private sources. The bank line of credit is unsecured, has a maximum borrowing level of \$70,000, and carries a personal guarantee. The Company is also seeking some asset based financing and the private infusion of funds. If adequate funds are not available on acceptable terms, the Company may be unable to continue operations, develop, enhance and market products; retain qualified personnel, take advantage of future opportunities; or respond to competitive pressures, any of which could have a material adverse effect on the Company's business, operating results, financial condition or liquidity.

Operating Activities. The Company's operations utilized cash of \$1,618,208 during the nine months ended September 30, 2002, as compared to cash of \$28,126 provided by the nine months ended September 30, 2001. The increase in cash utilized in operating activities in 2002 as compared to 2001 was primarily a

18

result of net losses. At September 30, 2002 cash had increased by \$270,529, to \$390,664, as compared to \$120,135 at December 31, 2001. The Company had working capital of \$381,168 at September 30, 2002, as compared to working capital deficit of \$390,171 at December 31, 2001, reflecting current ratios of 1.42:1 and 0.75:1 at September 30, 2002 and December 31, 2001, respectively.

Investing Activities. During the nine months ended September 30, 2002 and 2001, net cash used in investing activities was \$265,595 and \$90,881, respectively. During the nine months ended September 30, 2002 the Company invested \$238,614 in the production of an infomercial. The Company also invested \$28,925 in other fixed assets. During the nine months ended 2001 the Company invested \$90,881 in fixed assets.

Financing Activities. During the nine months ended September 30, 2002, the Company repaid certain shareholders and directors \$97,166. During the nine months ended September 30, 2001, the Company borrowed \$26,666 net of payments on short-term notes from its shareholders and directors. During the nine months ended September 30, 2002 and 2001, the Company reduced its bank line of credit by \$9,179 and \$6,220, respectively.

During the nine months ended September 30, 2002, The Company sold \$2,100,000 in the form of a convertible debentures. The debentures are convertible into common stock at \$0.25 per share for a period of twelve (12) months commencing six (6) months after the initial sale of the debentures. The Company's patents secure the debentures. For each share of common stock issued upon conversion of the debentures, one (1) common stock purchase warrant will be issued, which will be exercisable for a period of eighteen (18) months at \$0.10 per share. The costs associated with the issuance of the debentures have been capitalized and are being amortized over the 18 months. If the Debentures convert to equity prior to the 18-month term the unamortized portion will be debited to additional paid in capital.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

Pursuant to the terms of this financing, on June 11, 2002 Wyngate's President, Peter H. Pocklington, was appointed as Chairman of the Board of Directors and Chief Executive Officer. The financing also provides for Wyngate to appoint a majority of the Board of Directors of the Company. To this end Wyngate has appointed Roger Miller, Dean Reinmuth and Michael Piraino, the Company's president, Chief Operating Officer and Chief Financial Officer.

During the nine months ended September 30, 2001 the Company borrowed \$40,000 under a short-term note from a related party. During the nine months ended June 30, 2002, the Company repaid \$35,914 of short-term notes to unrelated parties.

On April 8, 2002, the Company entered into a stock purchase agreement (the "Agreement") with Wyngate Limited, a Jersey Limited Company ("Wyngate"), whereby Wyngate agreed to purchase 15,000,000 shares of the Company's common stock at \$0.075 per share for an aggregate purchase price of \$1,125,000. Of the purchase price, \$200,025 was paid upon execution of the Agreement and Wyngate executed a promissory note with interest at 2.88% per annum in favor of the Company for the balance of \$924,975. Pursuant to the promissory note, the balance is due and payable October 8, 2003. The promissory note is secured pursuant to a stock

19

pledge agreement that pledges 12,333,000 shares of the common stock, which shall be held by the Company as security for payment of the promissory note. For a period of eighteen (18) months from closing, Peter H. Pocklington shall have the right to have the Company acquire Meditron Medical, Inc., a Canadian corporation engaged in the medical manufacturing and sales business controlled by him, in a reverse merger transaction through the issuance of shares of common stock of the Company only, with an agreed value of Twenty Five Cents (\$0.25) per share. The value of the medical products company shall be determined by obtaining a fairness opinion from a reputable investment-banking firm.

Funds from this transaction will be used for working capital, sales and marketing, tour promotion, inventory purchases, accounts payable, patent development and general operating expenses.

On June 6, 2002, GolfGear International, Inc. (the "Company") completed the sale of \$2,000,000 of convertible debentures. The debentures are convertible into common stock at \$0.25 per share for a period of twelve (12) months commencing six (6) months after the initial sale of the debentures. The Company may sell up to an additional \$2,000,000 of convertible debentures in the near future. As part of this financing, the Company issued 532,000 shares of its common stock as a finder's fee.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We believe the following critical accounting policies affect our more significant estimates and assumptions used in the preparation of our financial statements. Our significant estimates and assumptions are reviewed and any required adjustments are recorded on a quarterly basis.

The Company has an infomercial in production. The costs associated with the infomercial are being capitalized and will be amortized over the estimated useful life of the Infomercial.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

The Company has obtained \$2,040,000 financing through a convertible debentures (Debentures). The costs associated with the issuance of the Debentures have been capitalized and are being amortized over the 18 months. If the Debentures convert to equity prior to the 18-month term the unamortized portion will be debited to additional paid in capital.

New Accounting Pronouncements:

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets", which is effective January 1, 2002. SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. In addition, SFAS No. 142 includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of the existing

20

recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company adopted SFAS No. 142 in December of 2001. It did not have any effect, its financial statement presentation or disclosures for this period.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses the diverse accounting practices for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company will be required to adopt SFAS No. 143 effective January 1, 2003. The Company is reviewing SFAS No. 143 to determine what effect, if any, it will have on its financial statement presentation or disclosures. There was no effect on the financial statements or disclosures for this period.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which is effective January 1, 2002. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and a portion of APB Opinion No. 30, "Reporting the Results of Operations". SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an asset as held-for-sale. Classification as held-for-sale is an important distinction since such assets are not depreciated and are stated at the lower of fair value or carrying amount. SFAS No. 144 also requires expected future operating losses from discontinued operations to be displayed in the period(s) in which the losses are incurred, rather than as of the measurement date as presently required. The Company does not anticipate that the adoption of SFAS No. 144 will have a material effect on the Company's financial statement presentation or disclosures.

Business Risks

History of Losses; Accumulated Deficit; Working Capital Deficiency.

The Company has incurred losses of \$999,877, \$2,730,170, \$1,360,999, \$912,256 and \$1,016,981 for the years ended December 31, 1997, 1998, 1999, 2000 and 2001, respectively and \$1,484,317 for the nine months ended September 30, 2002. The likelihood of the success of the Company must be considered in light of the problems, expenses, difficulties, complications, and delays frequently encountered in connection with the expansion of a business and the competitive

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

environment in which the Company operates. Unanticipated delays, expenses and other problems such as setbacks in product development, and market acceptance are frequently encountered in connection with the expansion of a business. (See "Significant Working Capital Requirements" below.) As a result of the fixed nature of many of the Company's expenses, the Company may be unable to adjust spending in a timely manner to compensate for any unexpected delays in the development and marketing of the Company's products or any capital raising or revenue shortfall. Any such delays or shortfalls will have an immediate adverse impact on the Company's business, operations and financial condition.

21

Significant Working Capital Requirements.

The working capital requirements associated with the manufacture and sale of the Company's golf clubs have been and will continue to be significant. The Company is currently not generating sufficient cash flow to fund its operations and growth is dependent on the proceeds from the sale of its shares to continue its operations and implement its sales and marketing strategy. The Company will require substantial additional operating capital during the balance of 2002 and 2003 to establish a comprehensive marketing plan, to maintain operations and to finance the expansion of its business. In the event that the Company's plans change or its assumptions change or prove to be inaccurate or if the proceeds from the sale of its shares or cash flow from operations proves to be insufficient to fund operations (due to unanticipated expenses, technical difficulties, problem or otherwise), the Company would be required to seek additional financing sooner than currently anticipated or may be required to significantly curtail or cease its operations.

The Company has no current arrangements with respect to, or sources of, financing. There can be no assurance that any financing will be available to the Company on a timely basis and on acceptable terms or at all. Any such financing may involve substantial dilution to the interests of the Company's shareholders. If the Company is not successful in raising any additional financing necessary to fund future working capital needs, then the Company might be forced to curtail some of Company operations, the exact nature of which cannot be predicted at this time.

Seasonal Business; Quarterly Fluctuations.

Golf is primarily a warm weather sport and the purchasing decisions of most customers are typically made in the fall and a vast majority of sales are expected to occur during the first six months of the year. In addition, quarterly results may vary from year to year due to the timing of new product introductions, orders and sales, advertising expenditures, promotional periods and shipments. Accordingly, comparisons of quarterly information of the Company's results of operations may not be indicative of the Company's overall annual performance.

Competition.

The market for the manufacture, distribution and sale of premium quality golf clubs, accessories and other related products is intensely competitive. The Company faces strong existing competition for similar products and expects to face significant competition from new companies or existing companies with new products. Many of these companies may be better financed, have better name recognition and consumer goodwill, have more marketing expertise and capabilities, have a large and loyal customer base, along with other attributes that may enable them to compete more effectively. The golf equipment industry is currently dominated by four companies, Callaway Golf Company, Fortune Brands (Titleist/Cobra), Karsten Manufacturing (Ping) and Taylor Made, which in the

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

aggregate, account for approximately one half of the golf clubs sold in the

22

United States. Many purchasers of premium clubs desire golf clubs that feature the most recent technology, innovative designs and recognized brand names. Recently, Adams Golf Co. and Orlimar Golf Company have become competitive factors in fairway woods and drivers.

Additionally, purchases are often made based upon highly subjective decisions that may be influenced by numerous factors, many of which are out of the Company's control. Golfers' subjective preferences are subject to rapid and unanticipated changes. As a result, the Company expects to face substantial competition from existing and new companies that market golf clubs, which are perceived to enhance performance, are visually appealing or appeal to other consumer preferences. Further, the golf club industry is subject to rapid and widespread imitation of golf club designs that, notwithstanding the existence of any proprietary rights, could further hamper the Company's ability to compete. The Company faces competition on the basis of price, reputation and qualitative distinctions among available products. There can be no assurances as to the market acceptance of the Company's golf clubs in relation to its competition.

Uncertainty of Market Penetration.

Several companies that have strong brand name recognition currently dominate the golf equipment industry. As a result, the market demand for new products from new companies is subject to a high level of uncertainty. Achieving significant market penetration and consumer recognition for the Company's products will require significant efforts and expenditures by the Company to inform potential customers about the Company's products. Although the Company intends to use a substantial portion of its working capital for marketing and advertising, there can be no assurance that the Company will be able to penetrate existing markets for golf equipment and related accessories on a broad basis, position its products to appeal to a broad base of customers, or that any marketing efforts undertaken by the Company will result in any increased demand for or greater market acceptance of the Company's products.

Consumer Preferences and Industry Trends.

The golf equipment industry is characterized by frequent introductions of new products and innovations and is subject to rapidly changing consumer preferences and industry trends such as the introduction of titanium clubs and oversized club heads, which may adversely affect the Company's ability to plan for future design, development and marketing of its products. Because of rapidly changing consumer preferences and industry trends, most golf club models and designs have short product life cycles. In addition, new club models and basic designs are frequently introduced and often rejected by customers. The Company's success will depend on its ability to anticipate and respond to these factors and introduce products that meet or exceed consumer expectations. There can be no assurance that the Company will be able to anticipate and respond to changing consumer preferences and industry trends or that competitors will not develop and commercialize new innovations that render the Company's proprietary technology or its golf clubs obsolete.

The Company's future operating results are also likely to be dependent upon the continuing popularity of golf as a sport and leisure activity. Although golf has gained increasing popularity over the last several years, there can be no assurance that its popularity as a sport and leisure activity will continue. Any significant decline in the popularity of golf could materially adversely

affect the Company. Moreover, golf, as a leisure activity, is affected by a number of factors relating to discretionary consumer spending, including general economic conditions affecting disposable consumer income, such as employment and business conditions, interest rates and taxation. Any significant change in general economic conditions or uncertainties regarding future economic prospects that adversely affect discretionary consumer spending generally, and golfers specifically, could have a material adverse effect on the Company.

Dependence on a Limited Number of Suppliers.

The Company does not manufacture the components required to assemble its golf clubs. The Company relies on several suppliers for club heads and graphite shafts. The Company does not have binding long-term supply contracts with any of its suppliers. Therefore, the Company's success will depend on maintaining its relationships with these suppliers and developing relationships with new suppliers. Any significant delay or disruption in the supply of club heads or graphite shafts caused by manufacturers' production limitations, material shortages, quality control problems, labor interruptions, shipping problems or other reasons would materially adversely effect the Company's business. The delays in receiving such supplies from alternative sources would cause the Company to sustain at least temporary shortages of materials to assemble its clubs, which could have a material adverse effect on the Company's business, operating results and financial condition.

Currently the Company is limited to a single source for certain key product components. The Company purchases its components pursuant to purchase orders placed from time to time and, except for those purchase orders, none of its suppliers is obligated to deliver specified quantities of components or to deliver components for any specified period. Accordingly, the Company is substantially dependent on the ability of its suppliers to provide adequate inventories of golf club components on a timely basis and on acceptable terms. The Company's suppliers also produce components for certain of the Company's competitors, as well as other large customers, and there can be no assurance that any such supplier will have sufficient production capacity to satisfy the Company's inventory or scheduling requirements during any period of sustained demand or that the Company will not be subject to the risk of price fluctuations and periodic delays. Although the Company believes that its relationships with its suppliers are satisfactory and that alternative sources of each of the components are currently available, the loss of the services of a supplier or substantial price increases imposed by a supplier could result in production delays, thereby causing cancellation of orders by customers and/or price increases resulting in reduced revenues and margins, respectively.

Dependence on Certain Suppliers; Foreign Suppliers.

The Company imports most of its club heads from companies in Asia. As a result, the supply of the materials required to assemble the Company's clubs is subject to additional cost and risk factors, many of which are out of the Company's control, including political instability, import duties, trade restrictions, work stoppages and foreign currency fluctuations. An interruption or material increase in the cost of supply would materially adversely affect the Company's business, operating results and financial condition.

Uncertainty Regarding Patents and Proprietary Rights.

The Company seeks patent protection for its proprietary products and technologies where appropriate. The Company currently has eight (8) United

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

States patents and two (2) international patents relating to its forged face technology and three (3) patents relating to the Company's putter technology. The Company also has several foreign patents pending. Corresponding foreign patent applications with respect to the Company's pending United States applications have been filed in the appropriate foreign jurisdictions. However, there can be no assurance that the Company's pending patents will be awarded or will provide the Company with significant protection against competitors. Litigation has been necessary and may be necessary in the future to protect the Company's patents, and there can be no assurance that the Company will have the financial or managerial resources necessary to pursue such litigation or otherwise to protect its patent rights. The Company has recently put various manufacturers on notice that the Company believes the manufacturers are infringing on Company patents. There is no guarantee that the Company will have adequate resources to pursue litigation against these manufacturers or that the Company would succeed in any ensuing litigation. In addition to pursuing patent protection in appropriate cases, the Company also relies on trade secret protection for its un-patented proprietary technology. However, trade secrets are difficult to protect. There can be no assurance that other companies will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to the Company's trade secrets, that such trade secrets will not be disclosed or that the Company can effectively protect its rights to un-patented trade secrets. The Company pursues a policy of having its employees and consultants execute non-disclosure agreements upon commencement of employment or consulting relationships with the Company, which agreements provide that all confidential information developed or made known to the individual during the course of employment shall be kept confidential except in specified circumstances. There can be no assurance, however, that these agreements will provide meaningful protection for the Company's trade secrets or other proprietary information.

Dependence on Relationships with Retailers.

The Company principally relies upon its relationships with its retailers to market the Company's products. The Company's account base consists of select on-course and off-course golf shops throughout the United States. The Company maintains its relationship with such retailers both directly and through its independent sales representatives. International sales are generally conducted through the use of foreign distributors in specific countries. Although the Company intends to market its products competitively and to develop business relationships with new retailers, there can be no assurances that the Company can successfully expand its retailer base to a level sufficient to reach profitable operations.

Technological Innovation; New Products; USGA Regulation.

The technology utilized in the Company's golf clubs is relatively new, compared to the majority of golf clubs currently being marketed. The Company believes it has extensive patent protection for most of its golf club heads, but there can be no assurance that it will be successful in defending and/or exploiting such

patents. Efforts to develop new technology and new products similar to or better than the Company's clubs are continuing to evolve at a rapid pace. It is expected that competitors will attempt to develop alternative golf clubs that apply existing and/or new technology. Such new technological innovations could have an adverse impact on the Company's business, operating results and financial condition. There is no assurance that the Company will be able to design technologically innovative golf clubs or golf products that achieve market acceptance. Further, the Company's existing clubs that have been designed and marketed may be rendered obsolete within a relatively short period of time.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

The design and sales of golf clubs are also greatly influenced by the rules and regulations of the United States Golf Association ("USGA"). Although the USGA's equipment standards only apply to USGA sanctioned events, it is critical for new clubs and existing clubs to comply with USGA standards. To the extent that the Company's clubs are ruled ineligible by the USGA, the Company's business, operating results and financial condition would be materially adversely affected. Although the Company believes that all of its current clubs comply with USGA standards and its proprietary technology is not inconsistent with USGA standards, there is no assurance that any newly developed clubs will be deemed to comply with USGA standards or that existing USGA standards and regulations will not be amended to make the Company's existing clubs ineligible for use in USGA sanctioned events.

The Company has designed, and is currently finalizing its plan to sell, certain clubs outside of North America that comply with the rules and regulations of the Royal and Ancient Golf Club of St. Andrews, Scotland. These clubs may not comply with USGA rules and regulations and will not be sold in North America.

Influence of Other External Factors.

The golf hardware industry in general is a speculative venture necessarily involving some substantial risk. There is no certainty that the expenditures to be made by the Company will result in commercially profitable business. The marketability of its products will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, and the general state of the economy (including the rate of inflation, and local economic conditions), which can affect peoples' discretionary spending. Factors that leave less money in the hands of potential customers of the Company will likely have an adverse effect on the Company. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Reliance on Management.

The Company's success is dependent on its key management, especially Peter Pocklington, Michael Piraino and Donald A. Anderson, the loss of whose services could significantly impede the achievement of the Company's planned development objectives. The Company currently does not maintain key man life insurance on any of these individuals. In addition, none of the officers or directors, or any of the other key personnel, except for Mr. Piraino and Mr. Anderson, has any employment agreement with the Company. Therefore, there can be no assurance that these personnel will remain employed by the Company. The success of the

Company's business objectives will require substantial additional expertise in such areas as finance, manufacturing and marketing, among others. Competition for qualified personnel among golf companies is intense, and the loss of key personnel, or the inability to attract and retain the additional, highly skilled personnel required for the expansion of the Company's activities, could have a material adverse effect on the Company's business and results of operations.

In addition, exclusively the officers and directors of the Company will make all decisions with respect to the management of the Company. Investors will only have rights associated with minority ownership interest to make decisions that affect the Company. The success of the Company, to a large extent, will depend on the quality of the directors and officers of the Company.

Control of the Company by Officers and Directors.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

The Company's officers and directors beneficially own approximately sixty percent (60%) of the outstanding shares of the Common Stock. As a result, such persons, acting together, have the ability to exercise significant influence over all matters requiring stockholder approval. Accordingly, it could be difficult for the investors hereunder to effectuate control over the affairs of the Company. Therefore, it should be assumed that the officers, directors, and principal common shareholders who control the majority of voting rights will be able, by virtue of their stock holdings, to control the affairs and policies of the Company.

Limitations on Liability, and Indemnification, of Directors and Officers.

The Company's Articles of Incorporation include provisions to eliminate, to the fullest extent permitted by the Nevada Revised Statutes as in effect from time to time, the personal liability of directors of the Company for monetary damages arising from a breach of their fiduciary duties as directors. The Bylaws include provisions to the effect that the Company may, to the maximum extent permitted from time to time under applicable law, indemnify any director, officer, or employee to the extent that such indemnification and advancement of expense is permitted under such law, as it may from time to time be in effect. Any limitation on the liability of any director, or indemnification of directors, officer, or employees, could result in substantial expenditures being made by the Company in covering any liability of such persons or in indemnifying them.

Conflicts of Interest.

The officers and directors have other interests to which they devote time, either individually or through partnerships and corporations in which they have an interest, hold an office, or serve on boards of directors, and each will continue to do so notwithstanding the fact that management time may be necessary to the business of the Company. As a result, certain conflicts of interest may exist between the Company and its officers and/or directors that may not be susceptible to resolution.

27

In addition, conflicts of interest may arise in the area of corporate opportunities that cannot be resolved through arm's length negotiations. All of the potential conflicts of interest will be resolved only through exercise by the directors of such judgment as is consistent with their fiduciary duties to the Company. It is the intention of management, so as to minimize any potential conflicts of interest, to present first to the Board of Directors to the Company, any proposed investments for its evaluation.

No Assurance of Continued Public Trading Market; Risk of Low Priced Securities. Since December 9, 1997, there has been only a limited public market for the common stock of the Company. The common stock of the Company is currently quoted on the Over the Counter Bulletin Board. As a result, an investor may find it difficult to dispose of, or to obtain accurate quotations as to the market value of the Company's securities. In addition, the common stock is subject to the low-priced security or so called "penny stock" rules that impose additional sales practice requirements on broker-dealers who sell such securities. The Securities Enforcement and Penny Stock Reform Act of 1990 ("Reform Act") requires additional disclosure in connection with any trades involving a stock defined as a penny stock (generally, according to recent regulations adopted by the U.S. Securities and Exchange Commission, any equity security that has a market price of less than \$5.00 per share, subject to certain exceptions), including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith. The regulations governing low-priced or penny

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

stocks sometimes limit the ability of broker-dealers to sell the Company's common stock and thus, ultimately, the ability of the investors to sell their securities in the secondary market.

Effects of Failure to Maintain Market Makers.

If the Company is unable to maintain a National Association of Securities Dealers, Inc. member broker/dealers as market makers, the liquidity of the common stock could be impaired, not only in the number of shares of common stock which could be bought and sold, but also through possible delays in the timing of transactions, and lower prices for the common stock than might otherwise prevail. Furthermore, the lack of market makers could result in persons being unable to buy or sell shares of the common stock on any secondary market. There can be no assurance the Company will be able to maintain such market makers.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On November 17, 2001, MC Corporation, a Japanese corporation, filed an action against the Company in the United States District Court, Central District of California. MC Corporation had purchased 210,526 shares of Series A Senior Convertible Preferred Stock in October 1999 for \$2,000,000, which, combined with the 34,504 shares of preferred stock received as dividends and pursuant to an anti-dilution provision, automatically converted into 2,450,300 shares of common stock in October 2001 pursuant to a subscription agreement dated September 1, 1999 (the "Subscription Agreement"). MC Corporation contended that it was entitled to approximately an additional 8,500,000 shares of common stock based

28

on its interpretation of the reset provision contained in the Subscription Agreement. The Company filed a cross-complaint against MC Corporation for reformation of the Subscription Agreement to conform it to the mutual understanding of the parties at the time it was executed.

MC Corporation had also been the exclusive distributor of the Company's products in Japan since September 1999. Effective March 5, 2002, the Company terminated its distribution agreement with MC Corporation as a result of MC Corporation's failure to comply with the terms of the distribution agreement.

On May 30, 2002, the Company entered into a settlement agreement and mutual general release (the "Settlement Agreement") with MC Corporation, John Kura and Keizaikai USA, Inc. (hereinafter collectively referred to as the "MC Corporation parties"). The Settlement Agreement provides that the Company issue a total of 3,000,000 shares of common stock to MC Corporation, consisting of 2,450,300 shares of common stock for the conversion at (the specified ten to one conversion rate) of 245,030 shares of convertible preferred stock previously issued to MC Corporation, and an additional 549,700 shares of common stock for other consideration. The 2,450,300 shares have already been reflected as issued and outstanding in the Company's financial statements at December 31, 2001 and March 31, 2002. The additional 549,700 shares of common stock are reflected as issued and outstanding in the June 30 2002. The Company was given the right of first refusal to repurchase any shares of common stock owned by MC Corporation it may desire to sell in a private transaction for a period of eighteen (18) months from the date of execution of the Settlement Agreement. All stock options and warrants owned by the MC Corporation parties were cancelled and MC Corporation's anti-dilution rights arising under the Settlement Agreement were terminated. The Settlement Agreement also provides that MC Corporation's representative on the Company's Board of Directors will resign, and the Company's distribution agreement with MC Corporation was formally terminated.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

The MC Corporation parties agreed to restrict the sale of their shares of common stock in a public transaction for a period of eighteen (18) months as follows: no sale of shares shall be made during the first six (6) months; during the second six (6) months, the MC Corporation parties agreed to sell no more than fifty percent (50%) of the limitation on volume restrictions contained in Rule 144(e) of the Securities Act of 1933, as amended; during the third six (6) month period, all sales must be made in compliance with the volume limitations contained in Rule 144(e).

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(c) Recent sales of unregistered securities

During the nine months ended September 30, 2002 the Company canceled 105,000 and issued 16,702 shares of its common stock. The 105,000 shares had been granted to but never issued to former employees. 15,000,000 shares of common stock was sold and issued to Wyngate Limited - details found else where in this document.

29

In connection with that sale of stock 1,072,000 shares were issued as a finder's fee. 550,000 shares of stock have been issued to MC Corporation as part of a settlement agreement - see legal proceedings. Effective June 30, 2002 75,000 shares were issued as part of a settlement of a certain debt and 5,000 shares in consideration for the extension granted on a certain note payable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 3.1 Articles of Incorporation (1)
- 3.2 Certificate of Amendment of Articles of Incorporation (1)
- 3.3 Certificate of Amendment of Articles of Incorporation (1)
- 3.4 Articles of Merger (1)
- 3.5 Bylaws (1)
- 4.3 Binding Subscription Agreement for Purchase of Equity Securities (M.C. Corporation) (1)
- 4.4 Certificate of Determination (1)
- 10.1 Distribution Agreement (M.C. Corporation) (1)
- 10.2 Distribution Agreement (GolfGear Korea, Ltd.) (1)
- 10.6 License Agreement (Wilson Sporting Goods Company) (1)
- 10.10 Employment Agreement (Donald A. Anderson) (1) (C)
- 10.11 GolfGear International, Inc. 1997 Stock Incentive Plan (1) (C)
- 10.12 License Agreement (Powerbilt Golf) (1)
- 10.13 Property Lease Agreement (2)
- 10.14 Amended and Restated Agreement for Sale and Purchase of Assets between Bel Air Golf Company and GolfGear International, Inc. (2)
- 10.15 Agreement for Sale and Purchase of Assets - Leading Edge (3)
- 10.16 Personal Services Agreement - Peter Allis (3)
- 10.17 Exclusive Distribution Agreement (4)
- 10.18 Subscription Agreement dated March 7, 2002 (5)
- 10.19 Stock Purchase Agreement dated April 8, 2002 (5)
- 10.20 Promissory Note dated April 8, 2002 (5)
- 10.21 Stock Pledge Agreement dated April 8, 2002 (5)
- 21 Subsidiaries of the Registrant (1)
- 99.1 Patents (1)
- 99.2 Trademarks (1)
- 99.3 Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (contained within this document)

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

(b) Reports on Form 8-K - Nine Months Ended September 30, 2002:

On April 8, 2002, GolfGear International, Inc. (the "Company") entered into a stock purchase agreement with Wyngate Limited, a Jersey Limited Company ("Wyngate"), whereby Wyngate agreed to purchase 15,000,000 shares of the Company's common stock.

On May 30, 2002, the Company entered into a settlement agreement and mutual general release (the "Settlement Agreement") with MC Corporation, John Kura and Keizaikai USA, Inc. (hereinafter collectively referred to as the "MC Corporation parties").

On June 6, 2002, GolfGear International, Inc. (the "Company") completed the sale of \$2,000,000 of convertible debentures. The debentures are convertible into common stock at \$0.25 per share for a period of twelve (12) months commencing six (6) months after the initial sale of the debentures. The debentures are secured by the Company's patents. For each share of common stock issued upon conversion of the debentures, one (1) common stock purchase warrant will be issued, which will be exercisable for a period of eighteen (18) months at \$0.10 per share.

Effective August 21, 2002, GolfGear International, Inc. has granted Nike Golf a non-exclusive, long-term, Worldwide license to manufacture and sell golf clubs under GolfGear's patents covering its proprietary forged-face insert technology. The license agreement grants Nike Golf the right to institute litigation against third parties for infringement of GolfGear's patents

30

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GOLFGEAR INTERNATIONAL, INC.

(Registrant)

Date: November 19, 2002

By: /s/ PETER H POCKLINGTON

PETER H POCKLINGTON
Chief Executive Officer
(Duly Authorized Officer)

Date: November 19, 2002

By: /s/ MICHAEL A. PIRAINO

MICHAEL A. PIRAINO
Chief Financial Officer, President,
Chief Operating Officer
(Principal Financial
Officer)

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10QSB/A

Date: November 19, 2002

By: /s/DANIEL C. WRIGHT

DANIEL C. WRIGHT
Chief Accounting Officer

(Principal Officer)