



Form 10-Q for AMERICAN RARE EARTHS & MATERIALS, CORP.

12-Nov-2010

Quarterly Report

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

CAUTIONARY NOTE ON FORWARD LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q contains forward looking statements regarding our business and performance that are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in such forward looking statements. In some cases, you can identify forward looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "projects," "potential," "proposed," "intended," or "continue" or the negative of these terms or other comparable terminology. Readers are cautioned not to place undue reliance on these forward looking statements, which reflect management's opinions only as of the date thereof. In evaluating such forward looking statements, readers should carefully review the discussion of risks and uncertainties in this Quarterly Report on Form 10-Q and in our most recent Annual Report on Form 10-K as well as in other filings with the Securities and Exchange Commission regarding, without limitation, statements about our business plans, statements about the potential for the development, and public acceptance of new products, estimates of future financial performance, predictions of national or international economic, political or market conditions, statements regarding other factors that could affect our future operations or financial condition, and other statements that are not matters of historical fact. Our ability to achieve our goals depends on many known and unknown risks and uncertainties, including changes in general economic and business conditions. Although we believe that the expectations reflected in the forward looking statements are reasonable, we cannot guarantee future results, growth rates, and levels of activity, performance or achievements. Except as expressly required by the federal securities laws, there is no undertaking to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

The discussion of risks and uncertainties may be found under "Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in this Quarterly Report on Form 10-Q and in our most recent Annual Report on Form 10-K as well as in other filings with the SEC, is not necessarily a complete or exhaustive list of all risks

facing the Company at any particular point in time. These forward looking statements speak only as of the date of this Form 10-Q and we disclaim any obligation to revise or update any forward looking statement that may be made from time to time by us or on our behalf.

Overview

Since 2002, our Company has been commercializing Rare Earth metals and advanced materials. This led to a vertical integration that began with the extraction of pure Scandium and other Rare Earths applications in the form of extruded, rolled or forged products and components. Today, that expertise has positioned us to become a leader in commercializing Rare Earth metals and advanced materials and quickly delivering revolutionary new products to consumer and industrial markets. Our objective is to become North America's best, most reliable source for Rare Earth metals and provide solutions to their applications. We are developing opportunities to distribute Rare Earths like Scandium, Neodymium, Europium and Lithium that will help major industries launch major industrial brands such as hybrid cars, flat screen televisions, LED light bulbs and wind turbines. We will also have significant exposure to large market categories such as transportation, shipbuilding, power transmission, automotive and aerospace.

The first products manufactured using the Company's proprietary golf technology have been produced and the Company commenced distribution to wholesalers and retail markets during the last quarter of its fiscal year ended June 30, 2006. In June 2007, the Company expanded its sales into recreational fishing equipment.

In January 2010, the Company entered into a Trademark License, Product Distribution Agreement and Management Agreement with Zeroloft Corp. Within the field of sportswear apparel, footwear and related sports specialty items, the Company obtained: (i) an exclusive license to the Zeroloft Aspen Aerogels trademarks; and (ii) a limited, worldwide, exclusive right to distribute the products bearing the Zeroloft Aspen Aerogels Trademark for production and sales of items in such field. The License Agreement has a term of five years, which term is automatically renewable for one year terms. We are currently working with major footwear and apparel manufacturers to incorporate Zeroloft into their lines of products. Russell Athletics, Hanesbrands and Camelbak have tested and incorporated Zeroloft into their product lines which we anticipate will be available to consumers in 2010 and 2011.

Our business, financial condition, cash flows and results from operations are subject to seasonality resulting from factors such as weather and spending patterns. Due to seasonality of our business, one quarter's results are not indicative of the full fiscal year's expected financial results. A majority of our revenue is earned in the second and third quarters of the year and revenues generally decline in the first and fourth quarters. During the current fiscal year, a greater portion of our annual fishing sales took place in

the second quarter when compared to the prior year because we moved our production schedule forward and shipping to our customers earlier.

Results of Operations

Three Months Ended September 30, 2010 and 2009

For the three months ended September 30, 2010, the Company had revenue of \$650,902, which includes non-cash barter revenue of \$1,720 and recovery of out of pocket expenses paid on behalf of Zeroloft Corp. of \$267,220, and incurred costs of sales of \$425,978 and general and administrative expenses of \$1,171,183, and interest income of \$224, and interest expense of \$3,836. Included in general and administrative expense is a non-cash charge of \$163,179 representing the value of compensatory common stock and warrants for services provided by consultants. This resulted in a net loss of \$949,871, as compared with the three months ended September 30, 2009 in which the Company had revenue of \$758,818, which includes non-cash barter revenue of \$8,066, incurred costs of sales of \$424,465 and general and administrative expenses of \$835,241, and interest income of \$302, and interest expense of \$90,829, resulting in a net loss of \$591,415.

Interest expense of \$3,836 and \$90,829 for the three months ended September, 2010 and 2009, respectively, primarily relates to paid and accreted interest on the Convertible Debenture and Loan payable to shareholder.

Our net accounts receivable balances were \$420,414, \$789,920 and \$238,160 at September 30, 2010, June 30, 2010 and September 30, 2009, respectively. The increase in accounts receivable compared to September 30, 2009 is primarily due to the increase in sales in the fourth quarter of the previous fiscal year. The Company is subject to risk of non-payment of its trade accounts receivable. For the three months ended September 30, 2010, three customers (which was as of comparable prior year period, three customers) respectively represent approximately 46.61% of sales (which was 36.59% as of the comparable prior year period) and 60.72% (or 84.15% for the comparable prior year period) of the total outstanding accounts receivable. Management continually monitors its credit terms with customers to reduce credit risk exposure.

Our net inventory balances were \$787,910, \$919,158 and \$1,518,515 at September 30, 2010, June 30, 2010 and September 30, 2009, respectively. The decrease in our inventory balance compared to September 30, 2009 is due to an increase in our provision for inventory obsolescence which was \$542,196 and \$178,000 at September 30, 2010 and September 30, 2009, respectively. The provision only relates to golf equipment and components other than golf shafts. Our inventory comprises golf and fishing products and components. We concentrate our new purchases of inventory on where we anticipate our future sales; golf shafts and our best selling SKUs.

Our royalty payable was \$1,204,103 and \$738,366 at September 30, 2010 and 2009, respectively. The increase in the balance is due to royalties on sales in the current period which are unpaid to Advanced. The royalty is calculated as 20% of the net selling price of fishing products sold by the Company and any sub licensee.

Financial Condition, Liquidity and Capital Resources

The Company has negative working capital as of September 30, 2010 of \$2,533,825. The Company retains consultants to perform development and public company reporting activities in exchange for stock of the Company. At June 30, 2010, we had a working capital deficiency of \$124,889. Our working capital deficiency is due to unpaid management compensation and royalties. Our continuation as a going concern will require that we raise significant additional capital. At September 30, 2010, \$1,807,806 (which was at June 30, 2010, \$1,795,746) was owed by the Company to the President of which \$400,814 (which was at June 30, 2010, \$400,814) is included in long-term liabilities on the balance sheet and \$1,406,992 is included in accrued expenses classified as current liabilities on the balance sheet (which was at June 30, 2010, \$1,394,932 is included in accrued expenses classified as long-term liabilities on the balance). The President agreed not to demand, within 12 months of June 30, 2010, the payment of \$1,795,746 in accrued compensation owing to the President by the Company. Amounts due to the President are payable on demand, non-interest bearing and unsecured. At September 30, 2010, this waiver ceased to cover a 12 month period. Accordingly, the amounts were reclassified to their current presentation.

There is no assurance that consultants will continue to accept stock compensation for services. If consultants discontinue to accept stock compensation we may not be able to continue to retain the services of such consultants.

Absent continued stock payment for services to our consultants and continued advances by stockholders of the Company, the Company cannot manufacture its golf shaft, fishing product lines, Zeroloft or market its products based on its technologies.

For the three month period ended September 30, 2010, the Company has generated gross revenue of \$267,220, related to the recovery of out-of-pocket expenses paid on behalf of Zeroloft Corp. (September 30, 2009 - \$4,883) from Zeroloft. The terms of our contract with our Zeroloft customers will require a prepayment which will cover our expected upfront costs.

Although the Company has previously been able to raise capital as needed, such capital may not continue to be available at all, or if available, that the terms of such financing will not be dilutive to existing stockholders or otherwise on terms not favorable to the Company or existing stockholders. Further, the current global financial situation may offer additional challenges to raising the required capital. If the Company is unable to

secure additional capital, as circumstances require, it may not be able to continue operations.

If adequate funds are not available or not available on acceptable terms, we may be unable to continue operations; develop, enhance and market products; retain qualified personnel; take advantage of future operations; or respond to competitive pressures, any of which could have a material adverse effect on our business; operating results; financial condition and/or liquidity.

Recent Accounting Pronouncements

See Note 4 "Recent Accounting Pronouncements Affecting the Company" to the Notes to Condensed Consolidated Financial Statements in Item 1 for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition, which is incorporated herein.

Dividend Policy

The Company has not declared or paid any cash dividends on its common stock since its inception and does not anticipate the declaration or payment of cash dividends in the foreseeable future. The Company intends to retain earnings, if any, to finance the development and expansion of its business. The Company is prohibited from paying dividends on common stock as long as there are any unpaid accrued dividends due to the Series B Convertible Preferred stock stockholders. Therefore, there can be no assurance that dividends of any kind will ever be paid. Pursuant to the Amended and Restated Certificate of the Powers, Designations, Preferences and Rights of the Series B Convertible Preferred stock of the Company, we are required to pay dividends on our Series B Stock. We have this quarter and we expect to continue to pay such dividends in the form of the Company's common stock.

Effect of Inflation

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

Climate Change

Management believes that neither climate change, nor governmental regulations related to climate change, have had, or are expected to have, any material effect on our operations.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires the use of estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, and provide a basis for making judgments about the carrying value of assets and liabilities that are not readily available through open market quotes. Estimates and assumptions are reviewed periodically, and actual results may differ from those estimates under different assumptions or conditions. We must use our judgment related to uncertainties in order to make these estimates and assumptions.

For a description of our critical accounting policies and estimates as well as certain sensitivity disclosures related to those estimates, see our Annual Report on Form 10-K for the year ended June 30, 2010. See Note 5 to these interim consolidated financial statements for the accounting policy adopted for Intangible Asset Subject to Amortization, Net. Our critical accounting policies and estimates have not changed materially during the three months ended September 30, 2010.

Off Balance Sheet Arrangements
None

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