

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

GOLFGEAR INTERNATIONAL INC
Form 10KSB
September 19, 2005

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

FORM 10-KSB

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2004

Transition Report Pursuant to 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 in its charter)

NEVADA

43-1627555

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

11562 Knott Ave, Suite 9 Garden Grove, CA 92841

(Address of principal executive offices, including zip code)

Issuer's telephone number, including area code: (714) 892-8889

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.001 par value

(Title of Class)

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

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

The issuer's net sales for the fiscal year ended December 31, 2004 were \$729,863

The aggregate market value of the issuer's common stock held by non-affiliates of the Company as of August 15, 2005, was \$638,780.

As of August 15, 2005, the issuer had 42,203,966 shares of Common Stock issued and outstanding. Transitional Small Business Disclosure Format: Yes No

TABLE OF CONTENTS

Part I.....	2
Item 1: Business.....	2
Item 2: Properties.....	12
Item 3: Legal Proceedings.....	13
Item 4: Submission Of Matters To A Vote Of Security Holders.....	13
Part II.....	14
Item 5: Market For Registrant's Common Stock And Related Shareholder Matters.....	14
Item 6: Management's Discussion And Analysis Of Financial Condition And Results Of Operations.....	15
Item 7: Financial Statements.....	20
Item 8: Changes In And Disagreements With Accountants On Accounting And Financial Disclosure.....	21
Item 8a: Controls And Procedures.....	21
Item 8b: Other Information.....	21
Part III.....	22
Item 9: Directors And Executive Officers Of The Registrant.....	22
Item 10: Executive Compensation.....	23
Item 11: Security Ownership Of Certain Beneficial Owners And Management.....	24
Item 12: Certain Relationships And Related Transactions.....	24
Item 13: Exhibits.....	25
Item 14: Principal Accountant Fees And Services.....	26

PART I

ITEM 1: BUSINESS

GolfGear International, Inc. ("GolfGear" or the "Company") designs, develops and markets innovative premium golf clubs intended to improve the quality and performance of a golfer's game. Utilizing patented forged face insert technology, the Company has created a new generation of metal woods and irons. The Company believes that the concept of producing a golf head with a forged face metal insert affixed to the body of an investment cast shell (head) is a significant improvement in the approach to making a wood or iron head.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

The Company believes that its forged face metal wood combines the accuracy and forgiveness of the investment cast metal wood with the feeling, strength and power that can only come from solid forged metal. The Company has also applied this same technology to irons, creating a state-of-the-art forged face iron that features the same forged face metal insert affixed to a cavity-back, investment-cast club head. This technology produces clubs that have a solid sweet spot, producing maximum energy transfer, which in turn provides consistent distance and accuracy, even if miss-hit.

The Company sells a full line of patented metal woods and irons marketed under various names, including Tsunami(R) Titanium drivers, first introduced in 1997 and updated and revised during 2003. The Company offers drivers in several sizes ranging from 360 cc to 450 cc. All of the Company's drivers have passed the test for spring-like effect and been approved by the USGA for play. The Company is attempting to utilize its patented technology to position itself as a major brand name in the golf industry.

All of the Company's products are intended to offer retailers a significant profit margin, in contrast to many of the competitive golf products currently offered for sale at off-course retailers and discounters. Several of the major companies in the golf hardware industry have moved to capture market share by selling their products through discounters and warehouse stores that, in turn, sacrifices their retailer's margins. The Company believes that this situation offers a substantial area of opportunity, since its proprietary products can provide better margins to retailers.

The Company's objective is to become a leading manufacturer of drivers, fairway woods, irons, and wedges and putters utilizing, wherever possible, its proprietary forged face insert technology. To achieve this objective, the Company is focusing its market strategy on enhancing the reputation of its products, increasing market penetration of its products, continuing the development of innovative clubs, and refining and improving existing technology. An integral part of this strategy involves the expansion of the Company's marketing and advertising efforts to target both domestic and international sales. Domestically, the Company intends to create product awareness through various channels, including direct response programs, print advertising, television commercials and other promotional activities including on-course golf pro shop demonstrations ("demo days"). The Company will also seek to contract with touring professional golfers on all tours to endorse Company products. The Company expects these professional golfers to demonstrate the effectiveness of forged face technology and provide valuable exposure. The Company also intends to expand its line of clubs by developing, acquiring or licensing its technologies to other golf manufacturers. The ability of the Company to implement its marketing strategy is subject to the Company having access to adequate capital.

During the third quarter of 2004, the Company suspended normal operations, including expanding brands and product offerings, new marketing programs, and direct marketing to customers, due to a lack of operating working capital resources. To the extent that the Company is unable to secure financing in 2005, the Company's liquidity and ability to continue to conduct operations will be impaired.

Industry Background

There are between 26 and 30 million golfers in the United States today, with approximately 5-6 million categorized as avid golfers (defined as those golfers playing 25 or more rounds per year). The sport is popular with both men and women. Its popularity is gaining around the world. It is one of the few sports in which players spend more money, as they get older.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

According to Golf Digest the United States golf equipment market is continuing to grow. Key factors fueling sales include the increasing popularity of premium-priced oversized drivers, higher quality fairway woods, oversized irons, new innovations in putter design and continuing interest in the sport among new players.

2

The industry comprises several types of golfers: avid, medium, new and casual. Avid golfers play frequently and spend significantly larger amounts for brand name equipment. Medium golfers play less frequently, are less brand conscious and play with either graphite or steel shafted clubs. Casual golfers play several games a year and represent the largest group with the potential upward movement from one category to another. New golfers as beginners typically use lower cost unbranded clubs in many cases bought in a "boxed set" that comes with all the clubs in a set and a bag.

Market leaders follow a similar pattern. Each established a market niche. Callaway introduced the oversize metal wood to the market. Cobra followed with oversize perimeter weighted irons. Each incorporated brand identity, product innovation and tour validation, from the PGA Tour to the LPGA Tour to the Senior Tour.

The Company's niche in the marketplace is producing clubs using a forged face metal titanium insert. Over the past several years, clubs have become larger, longer and lighter. Inserts offer a more consistent, dense sweet spot, superior weight distribution and cutting-edge technology. Titanium drivers have become common because of the move to the larger size heads. However, there is a cost factor involved in this transition. Two basic ways of manufacturing an all titanium driver has been developed: four piece forgings and investment cast body with a forged-face insert. Of the two ways to manufacture a driver, the four piece forgings have many welded seams that produce inconsistencies in strength and weight distribution, the cast body with a forged face produces a much more consistent club head and hitting surface. The Company holds a patent and produces all of its drivers utilizing the desirable cast body with a forged-face technology.

The Company believes that the market for golf clubs is cyclical, and that the consumer is now ready for something new. Most of the sets sold by the major club manufacturers in the last ten years are now aging and there is a substantial replacement market developing. Even the average golfer needs to upgrade and replace certain clubs on a regular basis. Some competitors have experienced tremendous growth throughout the 1990s by riding this cycle. The Company believes that it has the opportunity to be a major candidate to fill the product that will be sold in this next growth cycle. The Company's brand name remains underdeveloped while other brands have begun to erode as a result of having sold their popular models "down market". Large established brands such as Callaway and TaylorMade will continue to do well based on their ability to heavily promote their products on various professional tours and through major retailers and television advertising campaigns.

Competition

There have been many established brands in the golf market. The competitive nature of the golf business has altered the market share and ownership of many of these brands. Spalding, MacGregor, and Hogan are well-recognized old-line names in golf equipment. Each of these has undergone significant changes in the past few years. Callaway has purchased Spalding and Hogan out of bankruptcy and MacGregor has been reorganized under new ownership. Names currently dominating the industry's premium-brand sector are Callaway,

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

Titleist, Cobra, TaylorMade and to a lesser extent Ping and Cleveland Golf. Companies such as Callaway, Karsten Manufacturing (Ping) and Fortune Brands (Titleist/Cobra) are leading a wave of golf-focused idealism among consumers. The dominating golf companies concentrate on innovation, create new equipment categories or rely on established market leadership position in a particular category, such as oversized metal woods or irons.

The Company competes in the competitively priced, technology-based segment of the golf club manufacturing industry that includes companies with substantial financial resources. The Company believes that its technology, product quality standards, and competitive pricing structure can provide a competitive edge in the market.

Business Strategy

The Company introduced the new over-sized Tsunami(R) line at the PGA show in Orlando in January of 2002. During the third quarter of 2004, the Company suspended normal operations, including expanding brands and product offerings, new marketing programs, and direct marketing to customers, due to a lack of operating working capital resources. To the extent that the Company is able to secure sufficient financing in 2005 the Company will reintroduce the new over-sized Tsunami(R) line using the Company's infomercial. The entire Tsunami(R) product line has been positioned at the high end of the golf market from a technology standpoint and are very competitively priced. The Company received notice from the USGA that its 450cc and 400cc drivers have passed the test for spring-like effect and are approved for play. The Company intends to increase its market visibility throughout Asia as well as Europe and Canada. It is currently evaluating existing international distributor relationships and considering new affiliations.

3

Overall Marketing Strategy

The Company intends to concentrate its marketing efforts in direct marketing techniques, including direct response programs, which have evolved in recent years as a successful medium for marketing golf products. The Company's ability to aggressively pursue these marketing efforts is subject to the availability of adequate operating capital. The Company has completed and successfully tested a thirty-minute direct response program designed to promote the entire line of Tsunami(R) drivers. It is expected that the program will run on The Golf Channel, ESPN, ESPN2 and Fox Sports West. The program is hosted by Rick Dees, the nationally recognized DJ and host of the world-wide syndicated "Weekly Top 40", and features independent testing results, testimonials from professional and amateur golfers, interviews with Company engineers and scientists and run approximately thirty minutes. Shorter spots consisting of 30, 60 and 90 second run times will also be aired during the same time frame and may be "tagged" along with the Company's key retailers. The Company will also utilize current marketing trends which allow greater access to the golf consumer including direct advertising as well as to the on and off course shops.

The golf club industry has been highly seasonal, with most companies experiencing the majority of sales between February and June. There are also additional sales occurring between October and December for the Christmas buying season.

Most companies have used demo day programs to gain exposure at golf courses and private country clubs. The Company currently in negotiations with a noted PGA professional with plans to increase its exposure by becoming more active at key demo days. Technology driven, the Company is optimistic about this

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

marketing strategy since the consumer has shown a desire for more technical information at recent demo events. The Company has performed extremely well when in direct competition with the biggest competitors in the business, outselling the competition at several events. The demo day programs are intended to supplement the Company's other promotional efforts.

Direct Response Programs and Other Marketing

A direct response program is typically a thirty-minute program commonly called an infomercial that is used to introduce, brand, market and sell a product at the same time. The direct response program has been a popular way to save years of conventional marketing and selling methods, and is a faster and more efficient way to provide the consumer with technical information that may lead to a purchase. In the early stages of a direct response program campaign, the advertising produces substantial revenue and in some cases actually produces a profit. Over its life, the direct response program becomes a self-liquidating advertising campaign. A direct response program campaign is also supported by conventional selling methods.

The value of direct response programs lies in the creation of millions of interested, informed and qualified prospects wanting to buy featured products in stores. For every one buyer in a direct campaign there are up to eight buyers that want the product but will not buy direct and will look for it in retail. In addition to selling products from television, direct response programs can be an excellent source of leads for telemarketing, for promoting a brand image and "pushing" the retail store activity. The Company has completed and tested a 30-minute direct response program designed to promote the Tsunami (R) line of drivers and has invested over \$600,000 for its production. It is anticipated the program will run on The Golf Channel, ESPN, ESPN2 and Fox Sports West. The program is hosted by Rick Dees, the nationally recognized DJ, and features independent testing results, testimonials from professional and amateur golfers, interviews with Company engineers and scientists and run approximately thirty minutes. Shorter spots consisting of 30, 60 and 90 second run times will also be aired during the same time frame. The airing of this program is subject to available financing.

Along with the direct response program, the Company intends to run a print media campaign that may include placement in publications such as the Wall Street Journal and USA Today, and leading golfing publications such as Golf Digest, subject to available financing.

Customers

During the third quarter of 2004, the Company suspended normal operations, including expanding brands and product offerings, new marketing programs, and direct marketing to customers, due to a lack of operating working capital resources. Subsequent to the suspension of normal operations the Company has continued to sell to its foreign distributor. Typically during normal operations the Company sells to golf pro shops ("green grass") accounts and catalog and discount retailers ("off course") accounts. The Company has experienced some customer concentration in the past.

4

Employees

On July 15, 2005, the Company employed one (1) full-time employee and no part-time employees. None of the Company's employees are covered by a collective bargaining agreement.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

International Business

The Company distributes golf clubs worldwide. The Company intends to generate a portion of its revenue in foreign markets. This strategy provides a broader market opportunity and can help offset the effects of regional recessions and market trends. The Company sells its clubs through distributors in most countries, but in some cases the Company sells direct to retailers. International direct selling is expected to increase somewhat in the near future.

The Company is negotiating with potential distributors in Japan. Currently the Company has a distribution agreement with Cloud Water of South Korea.

Technology

Most of the Company's clubs feature its multi-patented, forged-face insert technology. The Company currently has ten (10) patents on its forged-face insert technology and three (3) patents on its putter technology.

In the early 1990's, the Company, drawing on over twenty-five years of research, did what had never been done before: it installed a solid forged-face metal insert into the hitting area of an investment-cast shell. The Company's forged-face clubs combined the density, power and distance of solid forged metals with the weight distribution, forgiveness and accuracy possible only in investment cast woods and irons. The result is a club that gives measurably superior performance because it has a much more solid hitting area with more weight around the perimeter to provide an extra large sweet-spot.

The Company had the foresight to begin patenting insert technology in 1989 in the United States and in major international markets, before the January 1, 1992 rule change by the United States Golf Association (USGA) and the Royal and Ancient (R&A) Golf Club of St. Andrews, Scotland, which legalized insert technology in both metal woods and irons. As a result, the Company believes that its patent portfolio with respect to insert technology is the most comprehensive intellectual property protection package of any participant in the golf club industry. The Company believes that no other golf manufacturing company or individual has secured more coverage, either in the number of patents or in the scope of claims. This patent technology forms the basis of the Company's business plan to exploit insert technology as the next wave of golf club design. The Company also expects that there will be an opportunity to generate royalties by selectively licensing this technology to major golf club manufacturers. The Company has identified and formally put on legal notice a significant number of potential infringers of its "Forged Insert Patents".

By attaching a solid forged-face metal insert into the cavity of a cast club, the Company believes that it has created the most solid hitting surface in golf and has put fifty percent more club head mass where it counts in the hitting area. When more mass meets the ball at impact and the mass is forged, not cast, maximum energy is transferred to the ball and shots travel significantly farther. Forged metal can do this because it is denser and has a more solid molecular structure than cast metals. Investment castings contain gas voids and porosity that can cause hairline cracks or cave-ins and create dead spots. Also, their porous finish and inconsistent internal structure can affect playability.

Management believes that its patents are strong enough to eventually make the Company a significant player in the golf industry. On January 1, 1992, the face of golf equipment changed forever when a USGA and R&A rule was changed to allow metal woods and irons with inserts. The Company was founded in 1989 to prepare for the changes it anticipated in golf equipment design. In the opinion of management, the introduction of its patented forged-face woods and irons

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

marked one of the most significant advancements in metal innovation and technology since the invention of the original metal wood more than twenty years earlier.

After creating and patenting the solid steel forged-face insert, the Company has continued to stake out new ground, securing multiple domestic and international patents for designs and inserts in several other materials such as forged titanium, steel, aluminum, beryllium copper and related alloys. The Company's patents also include variable face thickness technology.

Forged-face insert technology offers significant performance advantages. The Company's equipment offers levels of performance that golfers all over the world seek in a club, including greater distance, a large sweet spot, pin-point control, reduced vibration, increased velocity, accuracy, and forgiveness, and product identity.

5

Product Line

The Company's core product line is the Tsunami(R) driver, and fairway woods. The drive and feature forged titanium inserts that are inset into titanium or stainless steel shells, which incorporate the latest in graphite shafts and grips. The Tsunami(R) driver, offered in 400cc and 450cc volume is the Company's entry into the super-size driver category. The main body of the all-titanium Tsunami(R) driver is cast from aerospace-certified 6AL4V titanium and the face is fitted with a solid forged Beta 10:2:3 titanium insert. All of the Company's driver products conform to USGA regulations.

The Company's patented insert technology is unique because it can be applied to any anticipated new trend in golf clubs, including size, shape or material. The Company already has developed prototypes of a new driver and woods using this technology. Although brand name golf equipment companies become known by their general consumer acceptance, the Company's experience indicates golfers today have a tendency to be attracted more by performance and technology and less by a name brand. The Company is actively developing new products that will be complimentary to its existing product line.

Recent Financings

From January 2004 through July 2005, a director and stockholder has advanced approximately \$240,000 to the Company to be used for working capital. The Company has received these funds and recorded them as notes payable to stockholder of approximately \$166,000 during 2004 and \$74,000 during 2005. The advances bear interest at 6% per annum and are due on demand.

On October 7, 2003, the Company completed the sale of \$250,000 of 5% convertible debentures to MC Corporation, a company affiliated with a Company director and stockholder ("MC Corp"). These debentures were convertible into common stock at \$0.09 per share for a period of three months from the date of issuance. For each share of common stock issued upon conversion of the debentures, one common stock purchase warrant will be issued and will be exercisable for a period of twelve months at \$0.045 per share. In December 2003, these debentures, including accrued interest of \$2,083, were converted into 2,800,922 shares of common stock. The warrants expired unexercised.

On December 30, 2003, the Company completed the sale of \$1,000,000 of 5% convertible debentures to Quincy Investments Corp., a company affiliated with Peter Pocklington, Chairman, and MC Corp. These debentures were automatically convertible into 525,000 shares of Series A preferred stock of the Company

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

within ninety days of the date of issuance. Pursuant to the terms of the debenture agreement, if the Company was unable to convert the debentures into shares of Series A preferred stock within ninety days of issuance, the debentures would become immediately due and payable in full, with interest continuing to accrue at the face rate of interest of 5% per annum. As of December 31, 2003, the Company had not received \$100,000 in proceeds from Quincy, and accordingly, recorded \$100,000 due from stockholder in its consolidated balance sheet. The amount was subsequently received in January 2004. As of August 1, 2005, the debentures are in default and are due on demand.

Holders of the Series A preferred stock have the right to convert the Series A preferred stock into shares of common stock of the Company at conversion rates of 158:1 for Quincy and 161:1 for MC Corp. upon any of the following: (i) eighteen months after the date of issuance of the Series A preferred stock, (ii) a change of control, as defined, or (iii) upon the date the Company is no longer required to file report or financial statements with the United States Securities and Exchange Commission.

Recent Changes in Management and the Board of Directors

On July 9, 2004, Daniel C. Wright was made President and Chief Operating Officer of the Company. Daniel Wright has been with the Company since May of 2001 serving as its Chief Financial Officer and a director. Mr. Wright has over eleven (11) years in senior management positions within the golf industry. He began his career in the golf industry with Tru-Form Golf as their controller. Tru-Form Golf manufactured clubs and accessories originally severing as the house brand name for the Nevada Bob retail chain. After more than four (4) years with Tru-Form Golf, Mr. Wright joined Grip Technology, Inc., a publicly traded company, ("GTI") as their controller and CFO. GTI manufactured golf grips for both OEMs and retail outlets. GTI filed for bankruptcy in 1999. In addition to Mr. Wright's golf industry experience he has worked in the medical and direct market industries, and he has several years experience with local accounting firms. Mr. Wright has his bachelors in accounting and finance.

On October 12, 2004, the Company received a resignation letter from John Pierandozzi as a member of the Board of Directors of the Company. The Company accepted his resignation upon his notice.

In October 2004 the Company added Mr. Donald Berry as a director. Mr. Berry is regarded as one of Canada's premier health care sales and marketing executives. In 1997 as the Vice President of Western Canada for Ingram and Bell Medical, where he drove the company from number three in market share to number one in market position. While at Ingram and Bell the Western

6

Division contributed more than 50% of the company's annual gross profit despite the fact that Western Canada is less than 30% of the Canadian population. In 2002 Mr. Berry formed a partnership with Medical Mart Supplies West. As Executive Vice President and General Manager the Company has grown from negligible sales to over \$7 million in a three-year period.

In October 2004 the Company added Mr. Michael J Gobuty as a director. Mr. Gobuty started with Victoria Leather Garment MFG. Co. Ltd. in 1958. From an entry level position in the receiving department, he worked progressively through every job description in the organization to a position of complete control of the company. One of the largest companies of its kind in Canada, Victoria Leather manufactured and sold full lines of leather outerwear and sportswear. Currently Mr. Gobuty is in dual control of Gobuty's & Son's, where he is responsible for the production and sourcing of manufacturing in main land

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

China.

CAUTIONARY STATEMENT PURSUANT TO "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Except for historical information, the Company's reports to the Securities and Exchange Commission on Form 10-KSB and Form 10-QSB and periodic press releases, as a well as other public documents and statements, contain "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the statements. Among the Company's risks and uncertainties are the following:

Outstanding options and warrants could affect the market price of our common stock.

As of December 31, 2004 if all of the outstanding stock options and warrants were exercised, the 50 million authorized number of shares would be exceeded. Fully diluted shares would total approximately 220 million. The exercise of such outstanding options, warrants, and debt conversions will dilute the percentage ownership of the Company's stockholders, and any sales in the public market of shares of Common Stock underlying such securities may adversely affect prevailing market prices for the Common Stock. Moreover, the terms upon which the Company will be able to obtain additional equity capital may be adversely affected since the holders of such outstanding securities can be expected to exercise their respective rights therein at a time when the Company would, in all likelihood, be able to obtain any needed capital on terms more favorable to the Company than those provided in such securities.

Our common shareholders may experience substantial dilution

The sale of a substantial number of shares of our common stock in the public market, or the prospect of such sales, could materially and adversely affect the market price of our common stock. We are currently authorized to issue up to 50 million shares of common stock. To the extent of such authorization, our Board of Directors will have the ability, without seeking stockholder approval, to issue additional shares of common stock in the future for such consideration as our Board of Directors may consider sufficient. The issuance of additional common stock in the future will reduce the proportionate ownership and voting power of our common stock held by existing stockholders. Sales in the public market of substantial amounts of our common stock, including sales of common stock issuable upon exercise of options and warrants, could depress prevailing market prices for the common stock. The existence of outstanding options and warrants may prove to hinder our future equity financings. Consistent with EITF 00-19, the controlling shareholders of the Company have agreed to increase the authorized shares to 300 million.

Licensing of Technology/Products

The Company has plans to protect its intellectual properties to the full extent of the law. On August 21, 2002, GolfGear and Nike, Inc. jointly announced that Nike Golf was granted 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 granted Nike Golf the right to institute litigation against third parties for infringement of GolfGear's patents. The Company began receiving royalty payments during the first quarter of 2003 on products shipped by Nike.

The Company is in discussions with a number of other potential licensees for the licensing of its patented technology.

History of Losses; Accumulated Deficit; Working Capital Deficiency

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

The Company has incurred a history of continuing losses. 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 environment in which the Company operates. Unanticipated delays,

7

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.

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 additional operating capital during 2005 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.

Seasonal Business

Quarterly fluctuations occur as 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

There have been many established brands in the golf market. The competitive nature of the golf business has altered the market share and ownership of many of these brands. Spalding, MacGregor, and Hogan are well-recognized old-line names in golf equipment. Each of these has undergone significant changes in the past few years. Callaway has purchased Spalding and Hogan out of bankruptcy and MacGregor has been reorganized under new ownership. Names currently dominating the industry's premium-brand sector are Callaway, Titleist, Cobra, TaylorMade and to a lesser extent Ping and Cleveland Golf. Companies such as Callaway, Karsten Manufacturing (Ping) and Fortune Brands (Titleist/Cobra) are leading a wave of golf-focused idealism among consumers. The dominating golf companies concentrate on innovation, create new equipment categories or rely on established market leadership position in a particular

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

category, such as oversized metal woods or irons.

The Company competes in the competitively priced, technology-based segment of the golf club manufacturing industry that includes companies with substantial financial resources. The Company believes that its technology, product quality standards, and competitive pricing structure can provide a competitive edge in the market.

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.

8

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.

Source of Supply

There are five primary components that are necessary to produce a golf club. The Company has access to several manufacturers that are able to produce the same technology with the same quality standards with competitive pricing.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

The Company will continue to test components produced by other vendors. The Company is constantly working on new materials and sources of supply in the event that additional vendors are necessary.

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 affect 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.

The Company currently purchases its club heads from two sources, its shafts from two sources and its grips from three sources. 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 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, epidemics 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.

Dependence on a Few Major Customers

During the third quarter of 2004, the Company suspended normal operations, including expanding brands and product offerings, new marketing programs, and direct marketing to customers, due to a lack of operating working capital resources. Subsequent to the suspension of normal operations the Company has continued to sell to its foreign distributor. Typically during normal operations the Company sells to golf pro shops ("green grass") accounts and catalog and discount retailers ("off course") accounts. The Company has experienced some customer concentration in the past.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

Patents and Know-How

The Company's ability to compete effectively with other golf companies may be dependent, to a large degree, upon the proprietary nature of its technologies. The Company has eight (8) United States patents and two (2) international patents relating to the forged face technology and three (3) patents relating to the Company's putter technology. Titanium is now recognized throughout the industry as a superior metal for use in golf clubs. The patented putters include several devices that provide an alignment mechanism. A "virtual ball" marker allows the user to visualize the hit before the club is swung. This enables the club to be aligned to the ball, allowing the user to hit from the sweet spot of the club. Additionally, the putter clubs have heel and toe weighting to minimize club head rotation on impact, ensuring a straighter shot.

The Company received its eighth (8th) domestic patent (Patent No. 5,720,673) on insert technology on February 4, 1998. This patent further broadens the scope of the Company's insert patent portfolio. This patent has a primary function of providing a means of affixing the face insert to a cast club head. The insert is set into a recess, and locked into place by material being pushed over the edge of the insert, thus locking it permanently into place. The Company has also received a patent issued in Taiwan. The Company has several other patents pending both domestically as well as internationally. The Company will continue to focus on expanding its patent coverage on insert technology.

The Company recently received a patent in Japan that covers "Forged Insert Technology". The patent has several claims on forged insert technology including a variable forged face insert thickness. The insert may be thicker in the heel and toe areas to enhance weight distribution and density throughout the entire hitting area.

The Company plans on filing additional patents in the future.

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 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

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

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. During the third quarter of 2004, the Company suspended normal operations, including expanding brands and product offerings, new marketing programs, and direct marketing to customers, due to a lack of operating working capital resources. Previously, the Company's account base consisted of select golf shops (on and off course retailers) throughout the United States. The Company maintained 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.

10

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.

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 plans 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.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

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 H. Pocklington and Daniel Wright, 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. Wright has any employment agreement with 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

The Company's officers and directors beneficially own approximately eighty-nine percent (89%) 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.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

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.

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 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 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.

Cash Dividends Unlikely

The Company has never declared or paid dividends on its Common Stock and currently does not anticipate or intend to pay cash dividends on its Common Stock in the future. The payment of any such cash dividends in the future will be subject to available retained earnings and will be at the discretion of the Board of Directors.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

ITEM 2: PROPERTIES

The Company leases a 2,100 square foot facility located in Garden Grove, CA under the terms of a one-year lease, expiring August 31, 2005. The lease contains no renewal options and calls for monthly payments of approximately \$1,740. The Company believes that its facilities are adequate to maintain its existing business activities.

12

ITEM 3: LEGAL PROCEEDINGS

Recent Litigation and Settlement

On December 18, 2003, the Company received a resignation letter from Donald A. Anderson as a member of the Board of Directors of the Company. On December 19, 2003, Mr. Anderson also resigned as Chief Executive Officer of the Company. Prior to his resignation, on or about November 8, 2003, Mr. Anderson was suspended pending an investigation into possible violations of his employment contract with the Company and breach of fiduciary duty. On November 18, 2003, Mr. Anderson filed a complaint against the Company and its officers for breach of written contract, wrongful termination of employment and slander. Subsequently, the Company filed a cross complaint against Mr. Anderson for, among other things, breach of fiduciary duty and breach of written contract.

On June 23, 2004, the Company, its officers and Mr. Anderson entered into a Settlement Agreement (the "Settlement Agreement"), wherein, among other things, the Company withdrew its allegation that Mr. Anderson breached his fiduciary duties. Pursuant to the terms of the Settlement Agreement, the Company agreed to (i) pay Mr. Anderson \$165,000 in varying installments through January 30, 2006, (ii) transfer title of a 1996 Ford custom tour van owned by the Company to Mr. Anderson, and remove Mr. Anderson as a guarantor from certain Company debt obligations. In return, Mr. Anderson returned to the Company 994,110 shares of the Company's common stock owned by him valued at approximately \$30,000 (fair market value of the Company's stock on the settlement date). As of December 31, 2003, the Company recorded a net liability of approximately \$142,000 related to the settlement of this lawsuit. Mr. Anderson also agreed to convert \$60,000 in debentures, including accrued interest, held by him into shares of the Company's common stock at a conversion rate of \$0.095 per share. These debentures were converted into 753,000 shares of the Company's common stock on February 23, 2005.

The Company is currently in default for payment of amounts due to Mr. Anderson under the Settlement Agreement. On February 15, 2005, Mr. Anderson received a judgment for \$76,310 due to him under the terms of the Settlement Agreement. Pursuant to the Settlement Agreement, the Company agreed to issue a new stock certificate to Mr. Anderson for a stolen stock certificate for 2,642,625 shares of the Company's common stock. As of August 1, 2005, the Company has not issued this stock certificate. Mr. Anderson will dismiss the lawsuit upon the Company's full performance of the Settlement Agreement.

In March 2004, holders in the amount of \$200,000 of the Company's convertible debentures filed suit against the Company claiming, among other things, breach of written contract and default under security agreement and possession of collateral. The plaintiffs are seeking repayment of the principal amount of the debentures, including accrued interest, which matured on January 6, 2004, and possession of the intellectual property, including patents and trademarks, which collateralized the debentures. The parties are currently attempting to reach agreement on resolving this action in its entirety.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There has been no submission of matters to a vote of security holders during the fiscal year ended December 31, 2004.

13

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

The Company's Common Stock is traded on NASDAQ's Over the Counter Bulletin Board using the symbol "GEAR". The following table sets forth for the years ended 2004, 2003 and 2002 quarterly high and low sales prices of the Company's common stock as reported on NASDAQ for the periods indicated.

	High	Low
	-----	-----
Year Ending December 31, 2004		
First Quarter	\$ 0.07	\$ 0.04
Second Quarter	\$ 0.05	\$ 0.02
Third Quarter	\$ 0.05	\$ 0.05
Fourth Quarter	\$ 0.04	\$ 0.03
Year Ended December 31, 2003		
First Quarter	\$ 0.19	\$ 0.26
Second Quarter	\$ 0.22	\$ 0.16
Third Quarter	\$ 0.19	\$ 0.07
Fourth Quarter	\$ 0.10	\$ 0.06
Year Ended December 31, 2002		
First Quarter	\$ 0.27	\$ 0.02
Second Quarter	\$ 0.70	\$ 0.17
Third Quarter	\$ 0.45	\$ 0.20
Fourth Quarter	\$ 0.31	\$ 0.14

As of August 15, 2005, there were approximately 204 holders of record of the Company's Common Stock.

Dividends

The Company has never paid any cash dividends on its common stock and has no present intention of doing so.

Stock Option Plan

In October 1997, the Board of Directors of the Company approved the GolfGear International, Inc. 1997 Stock Option Plan (the "1997 Plan"). The 1997 Plan is intended to allow designated officers and employees and certain non-employees of the Company to receive stock options to purchase the Company's common stock and to receive grants of common stock subject to certain restrictions, as more fully described in the 1997 Plan. The 1997 Plan has reserved 2,642,625 shares of the Company's common stock, subject to adjustments, to be issued under the 1997 Plan.

The 1997 Plan provides for the granting to employees (including employees who are also directors and officers) of options intended to qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and for the granting of non-statutory stock options to directors, employees and consultants. The Board of Directors of the

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

Company currently administers the 1997 Plan.

The exercise price per share of incentive stock options granted under the 1997 Plan must be at least equal to the fair market value of the common stock on the date of the grant. With respect to any participant who owns shares representing more than 10% of the voting power of all classes of the Company's outstanding capital stock, the exercise price of any incentive or non-statutory stock options must be equal to at least 110% of the fair market value of the grant date, and the maximum term of the option must not exceed five years. Upon a merger of the Company, the options outstanding under the 1997 Plan will terminate unless assumed or substituted by the successor corporation. As of December 31, 2004, 1,138,330 options have been granted and 1,504,295 options are available for grant under the 1997 Plan.

14

ITEM 6: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report on Form 10-KSB for the year ended December 31, 2004 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 Annual Report on Form 10-KSB for the year ended December 31, 2004 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 and the Far East.

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

During the third quarter of 2004, the Company suspended normal operations, including expanding brands and product offerings, new marketing programs, and direct marketing to customers, due to a lack of operating working capital resources.

The Company is currently attempting to raise additional capital but

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

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.

On January 14, 2005, the Company secured a commitment for a \$10,000,000 private placement offering whereby a third party investor (the "Investor") will purchase up to \$10,000,000 of the Company's common stock over a twenty-four month period to provide the Company with operating capital. Funding is subject to, among other things, the Company filing a registration statement with the U.S. Securities and Exchange Commission with respect to the resale of common stock sold in the private placement offering. The Company is currently working towards satisfying all conditions precedent to closing the funding, but there can be no assurance that the Company will be successful in satisfying these terms. In connection with the funding commitment, the Company paid a structuring fee of \$10,000 and issued 2,000,000 shares of the Company's common stock to the Investor as a commitment fee.

Results of Operations

Years Ended December 31, 2004 and 2003

Net sales decreased to \$729,863 in 2004 from \$1,973,135 in 2003, a decrease of \$1,243,272. The decrease in net sales in 2004 as compared to 2003 is a result of the Company's lack of inventory and marketing efforts. The Company lacked the financial resources necessary to acquire inventory or sustain marketing efforts.

Gross profit decreased to \$463,515 in 2004 from \$561,904 in 2003, and increased as a percentage of net sales to 63.5% in 2004 from 28.5% in 2003. The increase in gross profit as a percentage of net sales in 2004 is due to the Company negotiating better pricing from its suppliers and selling off previously written off obsolete inventory.

Selling and marketing expenses decreased to \$107,668 in 2003 (14.8% of net sales) from \$1,061,355 in 2003 (53.8% of net sales), a decrease of \$953,687. In 2004, the Company lacked the financial resources necessary to acquire inventory or sustain marketing efforts.

Tour and pro contract expenses decreased to \$72,320 in 2004 from \$75,760 in 2003, a decrease of \$3,440. Tour and pro contract expenses remained relatively equivalent in 2004 as compared to 2003 as a result of prior contractual obligation.

General and administrative expenses decreased to \$900,799 in 2004 from \$1,795,546 in 2003, a decrease of \$894,747. In 2004, the Company's limited resources required reducing non-essential expenses, including reduction in personnel.

15

Depreciation and amortization decreased to \$24,437 in 2004 from \$58,274 in 2003, a decrease of \$33,837. The decrease is a result of the Company's downsizing and disposal of certain non-essential assets.

Interest expense decreased to \$1,147,364 in 2004 from \$1,667,801 in 2003. Interest expense in 2003 was primarily due to the increase in interest expense related to the \$2,100,000 convertible debenture financing which closed in June 2002. In connection with the financing, the Company incurred deferred

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

financing costs and recorded a debt discount related to a beneficial conversion feature and the estimated fair value of warrants issued in as part of the financing. The deferred financing costs were amortized over the 18-month term of the convertible debentures and were recorded as interest expense. The interest expense in 2004 was primarily due to the interest expense related to the \$1,000,000 convertible debenture financing in December 2003.

Net loss was \$1,796,613 for 2004 as compared to a net loss of \$4,157,599 for 2003. The decrease in the net loss is primarily related to the downsizing of the business activities.

Liquidity and Capital Resources

The consolidated financial statements as of and for the year ended December 31, 2004 have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The carrying amounts of assets and liabilities presented in the consolidated financial statements do not purport to represent the realizable or settlement values. The Company has suffered recurring operating losses and requires additional financing to continue operations. For the year ended December 31, 2004, the Company incurred a loss from operations of \$641,709 and a net loss of \$1,796,613; operating activities used cash of \$111,289; had a working capital deficit of \$3,970,902 and a stockholders' deficit of \$3,882,288. As a result of these factors, among others, there is substantial doubt about the Company's ability to continue as a going concern.

The Company will require additional capital to fund operating requirements. The Company is exploring various alternatives to raise this required capital, including convertible debentures, private infusion of equity and various collateralized debt instruments, 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. The Company may also be required to consider a formal or informal restructuring or reorganization.

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 Company's bank lines of credit paid in full and closed in 2004. The Company is actively seeking an investment of additional capital. 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 used cash of \$111,289 during the year ended December 31, 2004, as compared to utilizing cash of \$998,762 during the year ended December 31, 2003. The decrease in cash utilized in operating activities in 2004 as compared to 2003 was primarily a result of the Company suspending normal operations, including expanding brands and product offerings, new marketing programs, and direct marketing to customers, due to a lack of operating working capital resources. At December 31, 2004, cash was zero representing a decrease of \$60,339, as compared to \$60,339 at December 31, 2003. The Company had a working capital deficit of \$3,970,902 at December 31, 2004, as compared to a working capital deficit of \$2,243,712 at December 31, 2003.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

Investing Activities

During the years ended December 31, 2004 and 2003, net cash used in investing activities was \$6,250 and \$41,746, respectively. In 2003, the Company opened a fitting center in Rancho Mirage, California and capitalized various leasehold improvements. The fitting center never met the Company's revenue projections and was closed in early 2004. Due to the closure, the leasehold improvements were deemed impaired at December 31, 2003, and are reflected in loss on disposal of assets in the consolidated statement of operations for the year ended December 31, 2003.

16

Financing Activities

During the year ended December 31, 2002, the Company sold \$2,100,000 in the form of convertible debentures. The debentures are convertible into common stock at \$0.25 per share for a period of twelve months commencing six 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 common stock purchase warrant will be issued, which will be exercisable for a period of eighteen months at \$0.10 per share. The Company has repaid a total of \$900,000 in principal related to these convertible debentures.

On December 16, 2002, the Company's board of directors approved a modification to the warrants whereby the holder, without the prior conversion of the debenture, could exercise the warrant. As a result of the modification to the warrants, in the first quarter of 2003 debenture holders exercised 2,800,000 warrants at \$.10 per share resulting in the issuance of 2,800,000 shares of common stock for \$280,000 in gross proceeds.

On October 7, 2003, the Company completed the sale of \$250,000 of convertible debentures. The debentures are convertible into common stock at \$0.09 per share for a period of three months for each share of common stock issued upon conversion of the debentures, one common stock purchase warrant will be issued, which will be exercisable for a period of twelve months at \$0.045 per share. This debenture, including accrued interest, was converted into 2,800,922 shares of common stock during 2003.

On December 30, 2003, the Company completed the sale of \$1,000,000 of convertible debentures. The debentures are automatically converted into Preferred Stock at \$1.00 per share within ninety days of the date of issuance. Holders of the preferred stock shall have the right to convert the Preferred stock into shares of Common Stock of the Company at conversion rates of 158:1, and 161:1. The preferred stock is convertible upon any of the following: eighteen months after the issuance of the preferred stock, a change in control or upon the date the Company is no longer required to file reports or financial statements with the United States Securities Exchange Commission. If the Company is not able to convert this Debenture into shares of Preferred within ninety days from the date of issuance, the Debentures shall become immediately due and payable in full, with interest accruing on the face amount at a rate of 5% per annum. Currently the debentures are in default, but the holders have made no demands at this time.

As of December 31, 2004 the Company has no further borrowings under its secured line of credit arrangements with banks as the arrangements expired in 2004.

From January 2004 through July 2005, a director and stockholder has

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

advanced approximately \$240,000 to the Company to be used for working capital. The Company has received these funds and recorded them as notes payable to stockholder of approximately \$166,000 in 2004 and \$74,000 during 2005. The advances bear interest at 6% per annum and are due on demand.

On January 14, 2005, the Company secured a commitment for a \$10,000,000 private placement offering whereby a third party investor (the "Investor") will purchase up to \$10,000,000 of the Company's common stock over a twenty-four month period to provide the Company with operating capital. Funding is subject to, among other things, the Company filing a registration statement with the U.S. Securities and Exchange Commission with respect to the resale of common stock sold in the private placement offering. The Company is currently working towards satisfying all conditions precedent to closing the funding, but there can be no assurance that the Company will be successful in satisfying these terms.

Funds from these transactions have been used for working capital, sales and marketing, tour promotion, inventory purchases, accounts payable, patent development, completion of the direct response program and general operating expenses.

Critical Accounting Policies

The Company's consolidated 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 consolidated financial statements. Our significant estimates and assumptions are reviewed and any required adjustments are recorded on a quarterly basis.

Allowance for Doubtful Accounts

The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company regularly monitors its customer collections and payments and maintains a provision for estimated credit losses based upon the Company's historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within the expectations and the provisions established by the Company, there can be no assurance that the Company will continue to experience the same credit loss rates that have been experienced in the past.

17

Inventories

Inventories consist of materials, labor and manufacturing overhead and are stated at lower of cost (first-in, first-out) or market. The Company periodically reviews its inventory to evaluate it for excess and obsolete products. The difference between the market value of products and their cost is either written off as a direct charge to cost of goods sold or included in the reserve allowance. The loss from the liquidation or destruction of obsolete and excess inventory is applied against the reserve allowance. Once established, write-downs of inventories are considered permanent adjustments to the cost basis of the obsolete or excess inventories.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

Long-Lived Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company evaluates the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that such carrying values may not be recoverable. Under SFAS No. 144, the Company estimates the future undiscounted cash flows derived from an asset to assess whether or not a potential impairment exists when events or circumstances indicate the carrying value of a long-lived asset may differ. An impairment loss is recognized when the undiscounted future cash flows are less than its carrying amount. The Company uses its best judgment based on the most current facts and circumstances surrounding its business when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments and the fair value of a potentially impaired asset. Changes in assumptions used could have a significant impact on the Company's assessment of recoverability. At December 31, 2004 the Company determined that no impairment loss was necessary. There can be no assurance, however, that demand for the Company's products will continue, which could result in impairment of long-lived assets in the future.

Revenue Recognition

The Company recognizes revenue when products are shipped to a customer and the risks and rewards of ownership and title have passed based on the terms of sale. The Company records a provision for sales returns and claims based upon historical experience. Actual returns and claims in any future period may differ from the Company's estimates.

Amounts billed to customers for shipping and handling fees are included in net sales, and freight costs incurred related to these fees are included in cost of goods sold in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-01, "Accounting for Shipping and Handling Fees and Costs."

Licensing revenue is recognized when earned per the terms of royalty agreements. Occasionally, licensees pay royalties in advance, which are recorded as deferred licensing revenue in the accompanying consolidated balance sheets until such time they are earned.

Advertising

The Company expenses advertising costs as incurred, except certain direct-response advertising costs. Direct-response advertising costs are capitalized as incurred and then expensed when the related advertising program is aired.

Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 also includes required disclosures for financial instruments within its scope. For the Company, SFAS No. 150 was effective for instruments entered into or modified after May 31, 2003 and otherwise will be effective as of January 1, 2004, except for mandatory redeemable financial instruments. For certain mandatory redeemable financial instruments, SFAS No. 150 will be effective for the Company on January 1, 2005. The Company currently does not have any financial instruments that are within the scope of SFAS No. 150.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

amendment of ARB No. 43, Chapter 4." The amendments made by SFAS No. 151 clarify that abnormal amounts of facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is in the process of evaluating whether the adoption of SFAS No. 151 will have a significant impact on the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment," to provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123(R) replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that statement permitted entities the option of continuing to apply the guidance in APB Opinion No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. The Company will be required to apply SFAS No. 123(R) as of the first annual reporting period that begins after December 15, 2005. The Company is in the process of evaluating whether the adoption of SFAS No. 123(R) will have a significant impact on the Company's overall results of operations or financial position.

18

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." This statement amends APB Opinion No. 29 to eliminate the exceptions for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions for SFAS No. 153 are effective for nonmonetary asset exchanges incurred during fiscal years beginning after June 15, 2005. The Company is currently evaluating the effect, if any, of adopting SFAS No. 153.

19

ITEM 7: FINANCIAL STATEMENTS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm.....F-1

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

Consolidated Balance Sheets at December 31, 2004 and 2003.....	F-2
Consolidated Statements of Operations for the years ended December 31, 2004 and 2003.....	F-3
Consolidated Statements of Stockholders' Deficit for the years ended December 31, 2004 and 2003.....	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2004 and 2003.....	F-5
Notes to Consolidated Financial Statements.....	F-7

20

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
GolfGear International, Inc.:

We have audited the accompanying consolidated balance sheets of GolfGear International, Inc. and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GolfGear International, Inc. and subsidiaries as of December 31, 2004 and 2003 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred recurring losses and requires additional financing to continue operations. These conditions, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets carrying amounts or the amount and classification of liabilities that may result should the Company be unable to continue as a going concern.

CORBIN & COMPANY, LLP

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

Irvine, California
August 1, 2005

F-1

GOLFGEAR INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

	2004	2003
	-----	-----
ASSETS		
Current assets:		
Cash	\$ --	\$ 60,3
Accounts receivable, net of allowance for doubtful accounts of \$37,784 and \$49,713, respectively	11,189	131,3
Due from stockholder for convertible debenture financing	--	100,0
Inventories	--	169,3
Prepaid expenses	--	74,9
	-----	-----
Total current assets	11,189	536,1
Property and equipment, net	19,552	34,0
Other assets:		
Intangible assets, net	61,938	71,5
Deposits	7,124	7,7
	-----	-----
Total assets	\$ 99,803	\$ 649,5
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,189,229	\$ 900,8
Accrued product warranties	90,713	91,6
Accrued interest payable	302,549	172,3
Bank lines of credit	--	109,2
Notes payable	33,177	33,1
Notes payable to stockholder	166,423	
Convertible debentures due to related parties, net of debt discount of \$977,788 at December 31, 2003	1,000,000	22,2
Convertible debentures	1,200,000	1,400,0
Deferred licensing revenue	--	50,3
	-----	-----
Total current liabilities	3,982,091	2,779,8
	-----	-----
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, \$.001 par value; 10,000,000 shares authorized; none issued and outstanding	--	
Common stock, \$.001 par value; 50,000,000 shares authorized; 40,445,076 shares issued and outstanding	40,445	40,4
Additional paid-in capital	14,275,837	14,275,8
Deferred compensation	(22,314)	(66,9

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

Accumulated deficit	(18,176,256)	(16,379,6
Total stockholders' deficit	(3,882,288)	(2,130,3
Total liabilities and stockholders' deficit	\$ 99,803	\$ 649,5

See report of independent registered public accounting firm and notes to consolidated financial statements

F-2

GOLFGEAR INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2004 and 2003

	2004	2003
Net sales	\$ 729,863	\$ 1,973,135
Cost of goods sold	266,348	1,411,231
Gross profit	463,515	561,904
Operating expenses:		
Selling and marketing	107,668	1,061,355
Tour and pro contracts	72,320	75,760
General and administrative	900,799	1,795,546
Depreciation and amortization	24,437	58,274
Total operating expenses	1,105,224	2,990,935
Loss from operations	(641,709)	(2,429,031)
Other income (expense):		
Interest income	--	17,603
Interest expense	(1,147,364)	(1,667,801)
Loss on settlement of stock purchase note receivable	--	(150,000)
Loss on disposal of assets	--	(87,587)
Gain on settlement of accounts payable	--	131,691
Other, net	(5,140)	29,926
Total expense, net	(1,152,504)	(1,726,168)
Loss before provision for income taxes	(1,794,213)	(4,155,199)
Provision for income taxes	2,400	2,400
Net loss	\$ (1,796,613)	\$ (4,157,599)
Loss per common share - basic and diluted	\$ (0.04)	\$ (0.11)
Weighted average number of common shares outstanding - basic and diluted	40,445,076	37,222,102

See report of independent registered public accounting firm and

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

notes to consolidated financial statements

F-3

GOLFGEAR INTERNATIONAL, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
 YEARS ENDED DECEMBER 31, 2004 AND 2003

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Deferred Compensation	Common S Purchase Receiv
Balance, January 1, 2003	34,794,154	\$ 34,794	\$ 12,748,905	\$ (100,409)	\$ (945,
Common stock issued for exercise of warrants	2,800,000	2,800	277,200		
Common stock issued for exercise of options	50,000	50	450		
Interest income on stock purchase note					(15,
Convertible debt converted to common stock	2,800,922	2,801	249,282		
Beneficial conversion feature of convertible debentures			1,000,000		
Amortization of deferred compensation				33,468	
Settlement of stock purchase note					960,
Net loss					
Balance, December 31, 2003	40,445,076	40,445	14,275,837	(66,941)	
Amortization of deferred compensation				44,627	
Net loss					
Balance, December 31, 2004	40,445,076	\$ 40,445	\$ 14,275,837	\$ (22,314)	\$

See report of independent registered public accounting firm and
 notes to consolidated financial statements

F-4

GOLFGEAR INTERNATIONAL, INC., AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Cash flows from operating activities:		
Net loss	\$ (1,796,613)	\$ (4,157,599)
Adjustments to reconcile net loss to net cash used in		

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

operating activities:		
Amortization of debt discounts	977,778	1,181,961
Amortization of deferred compensation	44,627	33,468
Depreciation and amortization	24,437	58,274
Accrued interest on stock purchase note receivable	--	(15,234)
Write off of deferred advertising costs	--	602,364
Amortization of deferred financing costs	--	270,193
Provision for bad debts	--	31,668
Gain on settlement of accounts payable	--	(131,691)
Loss on settlement of stock purchase note receivable	--	150,000
Loss on disposal of assets	5,963	87,587
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	120,206	139,153
Inventories	69,379	323,525
Prepaid expenses	74,995	(16,942)
Deferred advertising costs and deposits	646	(600)
Increase (decrease) in:		
Accounts payable and accrued expenses	288,356	394,544
Accrued product warranties	(970)	(24,419)
Accrued interest payable	130,210	99,683
Deferred licensing revenue	(50,303)	(24,697)
	-----	-----
Net cash used in operating activities	(111,289)	(998,762)
	-----	-----
Cash flows used in investing activities:		
Purchases of property and equipment	(6,250)	(41,746)
	-----	-----
Cash flows from financing activities:		
Proceeds from exercise of options and warrants	--	280,000
Proceeds from sale of convertible debentures	100,000	1,150,000
Collection of common stock purchase note receivable	--	225,000
Repayment of convertible debt	(100,000)	(700,000)
Repayment of notes payable	--	(10,000)
Proceeds from notes payable to stockholder	166,423	--
(Repayments) borrowings under bank lines of credit, net	(109,223)	38,329
Proceeds from exercise of stock options	--	500
	-----	-----
Net cash provided by financing activities	57,200	983,829
	-----	-----
Net decrease in cash	(60,339)	(56,679)
	-----	-----
Cash, beginning of year	60,339	117,018
	-----	-----
Cash, end of year	\$ --	\$ 60,339
	=====	=====

See report of independent registered public accounting firm and notes to consolidated financial statements

F-5

GOLFGEAR INTERNATIONAL, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2004 AND 2003

(Continued)

2004

2003

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

	-----	-----
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 39,376	\$ 110,444
	=====	=====
Cash paid for income taxes	\$ --	\$ --
	=====	=====
Supplemental disclosure of non-cash investing and financing activities:		
Settlement of convertible debenture with transfer of inventories	\$ 100,000	\$ --
	=====	=====
Conversion of debt to common stock	\$ --	\$ 252,083
	=====	=====
Settlement of stock purchase not receivable for transfer of accounts payable, notes payable and accrued interest	\$ --	\$ 585,398
	=====	=====
Due from stockholder for convertible debenture financing	\$ --	\$ 100,000
	=====	=====
Beneficial conversion feature related to convertible debentures	\$ --	\$1,000,000
	=====	=====

See report of independent registered public accounting firm and notes to consolidated financial statements

F-6

GOLFGEAR INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

GolfGear International, Inc. and its subsidiaries (collectively, "GolfGear" or the "Company") designs, develops and markets golf clubs and related golf products.

2. LIQUIDITY AND MANAGEMENT'S PLANS

During the third quarter of 2004, the Company suspended normal operations, including expanding brands and product offerings, new marketing programs, and direct marketing to customers, due to a lack of operating working capital resources. To the extent that the Company is unable to secure financing in 2005, the Company's liquidity and ability to continue to conduct operations will be impaired.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Since inception, the Company has incurred recurring losses and requires additional capital to finance continuing operations. The Company incurred losses of \$1,796,613 and \$4,157,599 for the years ended December 31, 2004 and 2003, respectively. As of December 31, 2004, the Company has a working capital deficit of \$3,970,902 and a stockholders' deficit of \$3,882,288. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that may result should the Company be unable to continue as a going concern.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

The Company is attempting to increase revenues through various means, including expanding brands and product offerings, new marketing programs, and possibly direct marketing to customers, subject to the availability of operating working capital resources. To the extent that the Company is unable to increase revenues in the next few years, the Company's liquidity and ability to continue to conduct operations may be impaired.

The Company will require additional capital to fund operating requirements. The Company is exploring various alternatives to raise this required capital, including convertible debentures, private infusion of equity and various collateralized debt instruments, but there can be no assurance that the Company will be successful in this regard. To the extent 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. The Company may also be required to consider a formal or informal restructuring or reorganization.

As discussed in Note 15, the Company has secured a commitment for a \$10,000,000 private placement offering whereby a third party investor will purchase up to \$10,000,000 of the Company's common stock over a twenty-four month period to provide the Company with operating capital. Funding is subject to, among other things, the Company filing a registration statement with the United States Securities and Exchange Commission with respect to the resale of common stock sold in the private placement offering. The Company is currently working towards satisfying all conditions precedent to closing the funding, but there can be no assurance that the Company will be successful in satisfying these terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

F-7

GOLFGEAR INTERNATIONAL AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Significant estimates made by management are, among others, the realizability of accounts receivable and inventories, recoverability of long-lived assets, and valuation of deferred tax assets. Actual results

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

could differ from those estimates.

Concentration of Credit Risk

Cash

The Company maintains its cash in bank deposit accounts which are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. As of December 31, 2004, the Company had no deposits in excess of FDIC limits.

Accounts Receivable

The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company regularly monitors its customer collections and payments and maintains a provision for estimated credit losses based upon the Company's historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within the expectations and the provisions established by the Company, there can be no assurance that the Company will continue to experience the same credit loss rates that have been experienced in the past.

Inventories

Inventories consist of materials, labor and manufacturing overhead and are stated at lower of cost (first-in, first-out) or market. The Company periodically reviews its inventory to evaluate it for excess and obsolete products. The difference between the market value of products and their cost is either written off as a direct charge to cost of goods sold or included in the reserve allowance. The loss from the liquidation or destruction of obsolete and excess inventory is applied against the reserve allowance. Once established, write-downs of inventories are considered permanent adjustments to the cost basis of the obsolete or excess inventories.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets that range from five to seven years. Leasehold improvements are amortized on the straight-line method over the term of the lease or the useful life of the asset, whichever is shorter. Maintenance and repairs are charged to expense as incurred. Renewals and improvements of a major nature are capitalized. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in operations.

F-8

GOLFGEAR INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

Intangible Assets

Intangible assets include the cost of patents and trademarks, and are being amortized on the straight-line basis over their estimated useful

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

lives, which vary from two to seventeen years.

Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company evaluates the carrying value of long-lived assets for impairment whenever events or change in circumstances indicate that such carrying values may not be recoverable. Under SFAS No. 144, the Company estimates the future undiscounted cash flows derived from an asset to assess whether or not a potential impairment exists when events or circumstances indicate the carrying value of a long-lived asset may differ. An impairment loss is recognized when the undiscounted future cash flows are less than its carrying amount. The Company uses its best judgment based on the most current facts and circumstances surrounding its business when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments and the fair value of a potentially impaired asset. Changes in assumptions used could have a significant impact on the Company's assessment of recoverability. At December 31, 2004, the Company determined that no impairment loss was necessary. There can be no assurance, however, that demand for the Company's products will continue, which could result in impairment of long-lived assets in the future.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of the convertible debentures. Deferred financing costs are being amortized over the life of the convertible debentures on the straight-line basis, which approximates the effective interest method.

Beneficial Conversion Feature

The convertible feature of certain convertible notes provides for a rate of conversion that is below market value (see Notes 9 and 10). Such feature is normally characterized as a "beneficial conversion feature" ("BCF"). Pursuant to Emerging Issues Task Force ("EITF") Issue No. 98-5, "Accounting For Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio" and EITF Issue No. 00-27, "Application of EITF Issue No. 98-5 To Certain Convertible Instruments," the relative fair values of the BCF's have been recorded as a discount to the face amount of the respective debt instrument. The Company amortizes the discount using the straight-line method, which approximates the effective interest method, through maturity of such instruments. The Company will record the corresponding unamortized debt discount related to the BCF and the warrants as interest expense when the related instrument is converted into the Company's common stock.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, due from/to stockholder, payables, accrued expenses, notes payable and convertible debentures. The carrying value for all such instruments, except the convertible debentures and due from/to stockholder, considering the terms, approximates fair value at December 31, 2004. The fair value of due from/to stockholder is not determinable as the transaction is with a related party. The fair value of convertible debentures is not determinable as equivalent instruments could not be located.

Revenue Recognition

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

Revenue is recognized in accordance with Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements", as revised by SAB 104. The Company recognizes revenue when products are shipped to a customer and the risks and rewards of ownership and title have passed based on the terms of sale. The Company records a provision for sales returns and claims based upon historical experience. Actual returns and claims in any future period may differ from the Company's estimates.

F-9

GOLFGEAR INTERNATIONAL AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Amounts billed to customers for shipping and handling fees are included in net sales, and freight costs incurred related to these fees are included in cost of goods sold in accordance with EITF Issue No. 00-01, "Accounting for Shipping and Handling Fees and Costs."

Licensing revenue is recognized when earned per the terms of royalty agreements. Occasionally, licensees pay royalties in advance, which are recorded as deferred licensing revenue in the accompanying consolidated balance sheets until such time they are earned.

Product Warranties

The Company generally provides a lifetime warranty against defects. The Company maintains a reserve for its product warranty liability based on estimates calculated using historical warranty experience. While warranty costs have historically been within the Company's expectations, there can be no assurance that the Company will continue to experience the same warranty return rates or repair costs as in prior years. A significant increase in product return rates, or a significant increase in the costs to repair product, could have a material adverse impact on the Company's operating results.

Warranty liability activity for the years ended December 31, 2004 and 2003 was as follows:

	2004	2003
	-----	-----
Balance as of January 1	\$ 91,683	\$ 116,102
Provisions for warranty expense	4,632	20,540
Warranty claims and expenses	(5,602)	(44,959)
	-----	-----
Balance as of December 31,	\$ 90,713	\$ 91,683
	=====	=====

Advertising

The Company expenses advertising costs as incurred, except certain direct-response advertising costs. Direct-response advertising costs are capitalized as incurred and then expensed when the related advertising program is aired. Direct-response advertising costs capitalized during the year ended December 31, 2003 was \$600. During the year ended December 31, 2003, the direct-advertising program aired, and accordingly, all costs related to the program were expensed in 2003.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

Advertising costs for the years ended December 31, 2004 and 2003 was \$28,181 and \$794,947 (including \$602,364 related to direct-response advertising costs), respectively, which is included in selling and marketing expenses in the accompanying consolidated statements of operations.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, income taxes are recognized for the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for future tax consequences of transactions that have been recognized in the Company's financial statements or tax returns. A valuation allowance is provided when it is more likely than not that some portion or the entire deferred tax asset will not be realized.

Stock-Based Compensation

The Company periodically issues common stock options and common stock purchase warrants to employees and non-employees in non-capital raising transactions for services rendered and to be rendered, and as financing costs.

F-10

GOLFGEAR INTERNATIONAL AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Stock-based awards to non-employees are accounted for using the fair value method in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," and EITF Issue No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services." All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date used to determine the fair value of the equity instrument issued is the earlier of the date on which the third-party performance is complete or the date on which it is probable that performance will occur.

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure," effective for fiscal years ending after December 15, 2002. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition to the fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS No. 148 does not amend SFAS No. 123 to require companies to account for their employee stock-based awards using the fair value method. The disclosure provisions are required, however, for all companies with stock-based employee compensation, regardless of whether they utilize the fair value method

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

of accounting described in SFAS No. 123 or the intrinsic value method described in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees."

The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with APB Opinion No. 25. As permitted by SFAS No. 123, as amended by SFAS No. 148, the Company has chosen to continue to account for its employee stock-based compensation plan under APB Opinion No. 25 and provide the expanded disclosures specified in SFAS No. 123, as amended by SFAS No. 148. Had employee stock based compensation cost been determined using the fair value method, the Company's net loss and loss per share would have been adjusted to the pro forma amounts indicated below:

	For the Years Ended December 31, 2004	2003
	-----	-----
Net loss as reported	\$ (1,796,613)	\$ (4,157,599)
Deduct: Total stock-based employee compensation under fair value based method for all awards, net of related tax effects	--	(148,334)
	-----	-----
Pro forma net loss	\$ (1,796,613)	\$ (4,305,933)
	=====	=====
Basic and diluted loss per share - as reported	\$ (0.04)	\$ (0.11)
	=====	=====
Basic and diluted loss per share - pro forma	\$ (0.04)	\$ (0.12)
	=====	=====

Basic and Diluted Loss Per Share

Basic earnings (loss) per common share are computed based on the weighted average number of shares outstanding for the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average shares outstanding assuming all dilutive potential common shares are issued. Basic and diluted loss per share is the same as the effect of stock options and warrants on loss per share are anti-dilutive and thus not included in the diluted loss per share calculation. However, the impact under the treasury stock method of dilutive stock options and warrants would have been zero and 2,800,000 incremental shares for the years ended December 31, 2004 and 2003, respectively.

Segment and Geographic Information

The Company operates in one business segment. The Company sells to customers in the United States, and the Far East. Sales for the years ended December 31, 2004 and 2003 to customers internationally were \$30,732 and \$75,985, respectively. Sales for the years ended December 31, 2004 and 2003 to customers in the United States were \$699,131 and \$1,897,150, respectively.

F-11

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

Concentrations of Major Customers

During the year ended December 31, 2004, one customer accounted for 27.3% of net sales. At December 31, 2004, one customer accounted for 90% of net accounts receivable. During the year ended December 31, 2003, one customer accounted for 39% of net sales. At December 31, 2003, one such customer accounted for 86% of net accounts receivable.

Supplier Concentration

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 affect 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.

New Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." The amendments made by SFAS No. 151 clarify that abnormal amounts of facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is in the process of evaluating whether the adoption of SFAS No. 151 will have a significant impact on the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), ("SFAS No. 123(R)") "Share-Based Payment," to provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123(R) replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that statement permitted entities the option of continuing to apply the guidance in APB Opinion No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

been used. The Company will be required to apply SFAS No. 123(R) as of January 1, 2006. The Company is in the process of evaluating whether the adoption of SFAS No. 123(R) will have a significant impact on the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." This statement amends APB Opinion No. 29 to eliminate the exceptions for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions for SFAS No. 153 are effective for nonmonetary asset exchanges incurred during fiscal years beginning after June 15, 2005. The Company is currently evaluating the effect, if any, of adopting SFAS No. 153.

4. INVENTORIES

During 2004, the Company liquidated its inventory completely. At December 31, 2003, the Company had raw materials of \$100,026 and finished goods of \$69,353.

5. PROPERTY AND EQUIPMENT

At December 31, 2004 and 2003 property and equipment consists of the following:

	2004	2003
	-----	-----
Machinery and equipment	\$ 19,737	\$ 23,143
Office equipment	7,332	9,532
Computers and software	18,781	18,781
Furniture and fixtures	6,654	6,654
Automobile	18,766	52,091
Tooling	6,250	--
	-----	-----
	77,520	110,201
Less accumulated depreciation and amortization	(57,968)	(76,152)
	-----	-----
	\$ 19,552	\$ 34,049
	=====	=====

Depreciation expense for the years ended December 31, 2004 and 2003 was \$14,784 and \$18,850, respectively.

6. INTANGIBLE ASSETS

At December 31, 2004 and 2003, intangible assets consist of the following:

	2004		2003	
	-----	-----	-----	-----
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	-----	-----	-----	-----
Patents	\$227,210	\$165,272	\$227,210	\$155,619

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

Trademarks	78,408	78,408	78,408	78,408
	-----	-----	-----	-----
	\$305,618	\$243,680	\$305,618	\$234,027
	=====	=====	=====	=====

F-13

GOLFGEAR INTERNATIONAL AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2004 AND 2003

Amortization expense related to the acquired intangible assets was \$9,653 and \$39,424 for the years ended December 31, 2004, and 2003, respectively. Estimated amortization expense for each of the next five years ended December 31 is as follows:

Years Ending December 31,	

2005	\$ 9,663
2006	9,663
2007	9,663
2008	9,663
2009	9,663

During the year ended December 31, 2003, the Company determined that the intangible assets acquired in connection with a previous acquisition were impaired. As a result, the Company wrote off the unamortized balance of the patents and trademarks of \$17,500, which is included in amortization expense in the accompanying consolidated statement of operations.

7. BANK LINES OF CREDIT

The Company had a \$250,000 bank line collateralized by eligible accounts receivable. The line of credit originally matured on December 9, 2003 and was extended to June 2004. Interest was payable monthly at an interest rate of 28% annually. Outstanding borrowings under this line at December 31, 2004 and 2003 were zero and \$52,905, respectively. This credit line was closed and paid in full in June 2004. The Company also had an unsecured \$70,000 line of credit with another bank. Interest was payable monthly at a variable rate (10% at December 31, 2003). Outstanding borrowings at December 31, 2004 and 2003 were zero and \$56,318, respectively. This line of credit was closed and paid in full in September 2004. Interest expense related to the bank lines of credit was \$14,476 and \$36,445 for the years ended December 31, 2004 and 2003, respectively.

8. NOTES PAYABLE

At December 31, 2004 and 2003, notes payable consisted of a note payable to an individual, payable on demand plus interest at 6%. Interest expense related to the notes payable was \$1,991 and \$4,658 for the years ended December 31, 2004 and 2003, respectively. Accrued interest at December 31, 2004 and 2003 was \$5,338 and \$6,080, respectively.

9. RELATED PARTY DEBT

Note Payable to Stockholder

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

On November 20, 2002, the Company entered into a loan agreement with Peter Pocklington, its Chairman, whereby Mr. Pocklington loaned the Company \$200,000. As consideration for the loan, the Company agreed to an amendment to a stock pledge agreement and released 9,029,518 shares of common stock held by the Company as security for payment of a promissory note due from Wyngate Limited ("Wyngate"), a company affiliated with Mr. Pocklington, for the purchase of 15,000,000 shares of common stock. The loan has an interest rate of 9.5% and was due on June 20, 2003.

F-14

GOLFGEAR INTERNATIONAL AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

On July 17, 2003, Mr. Pocklington, Wyngate and Quincy Investments Corp., a company affiliated with Mr. Pocklington ("Quincy") (collectively, the "Parties") jointly and collectively entered into an agreement with the Company whereby, among other things, the Parties satisfied a portion of the then outstanding balance of the Stock Purchase Note by offsetting the \$200,000 note payable to stockholder, including accrued interest of \$14,710, against the Stock Purchase Note (See Note 14).

In 2004, a director and stockholder advanced the Company \$166,423 to be used for working capital. The advances bear interest at 6% per annum and are due on demand.

Interest expense related to the notes payable to stockholder was \$2,252 and \$14,446 for the years ended December 31, 2004 and 2003, respectively. Accrued interest at December 31, 2004 was \$2,252 (none at December 31, 2003).

Convertible Debentures Due to Related Parties

On October 7, 2003, the Company completed the sale of \$250,000 of 5% convertible debentures to MC Corporation, a company affiliated with a Company director and stockholder ("MC Corp"). These debentures were convertible into common stock at \$0.09 per share for a period of three months from the date of issuance. For each share of common stock issued upon conversion of the debentures, one common stock purchase warrant will be issued and will be exercisable for a period of twelve months at \$0.045 per share. Issuance costs were not significant. The estimated value of the beneficial conversion feature was not significant at the date of issuance. In December 2003, these debentures, including accrued interest of \$2,083, were converted into 2,800,922 shares of common stock. The warrants expired unexercised.

On December 30, 2003, the Company completed the sale of \$1,000,000 of 5% convertible debentures to Quincy and MC Corp. The debentures were automatically convertible into 525,000 shares of Series A preferred stock of the Company within ninety days of the date of issuance. Pursuant to the terms of the debenture agreement, if the Company was unable to convert the debentures into shares of Series A preferred stock within ninety days of issuance, the debentures would become immediately due and payable in full, with interest continuing to accrue at the face rate of interest of 5% per annum. As of December 31, 2003, the Company had not received \$100,000 in proceeds from Quincy, and accordingly, the Company recorded \$100,000 due from stockholder in the accompanying consolidated balance sheet. The amount was subsequently

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

received in January 2004. As of August 1, 2005, the debentures are in default and are due on demand.

Holders of the Series A preferred stock have the right to convert the Series A preferred stock into shares of common stock of the Company at conversion rates of 158:1 for Quincy and 161:1 for MC Corp. upon any of the following: (i) eighteen months after the date of issuance of the Series A preferred stock, (ii) a change of control, as defined, or (iii) upon the date the Company is no longer required to file reports or financial statements with the United States Securities Exchange Commission.

The conversion feature of the convertible debentures provides for a rate of conversion that is below market value, resulting in a beneficial conversion feature. The Company estimated the fair value of the beneficial conversion feature to be \$1,000,000 at date of issuance, and recorded such conversion feature as a debt discount, which was amortized to interest expense over the term of the debentures. Interest expense related to the convertible debentures due to related parties was \$1,030,099 and \$22,222 for the years ended December 31, 2004 and 2003, respectively, of which \$977,778 and \$22,222, respectively, related to the amortization of the debt discount. Accrued interest at December 31, 2004 was \$52,321 (none at December 31, 2003).

10. CONVERTIBLE DEBENTURES

On June 6, 2002, the Company completed the sale of \$2,100,000 of 7% convertible debentures. The debentures are convertible into common stock at \$0.25 per share for the period of 12 months commencing six months after the initial sale of the debentures, and were due in December 2003. The Company's patents, trademarks, and other intangible assets secure the debentures. For each share of common stock issued upon conversion of the debentures, one common stock purchase warrant will be issued, which will be exercisable at \$0.10 per share for a period of 18 months from the date of conversion.

The conversion feature of the convertible debentures provides for a rate of conversion that is below market value, resulting in a beneficial conversion feature. The Company estimated the fair value of the beneficial conversion feature to be \$2,100,000 at date of issuance, and recorded such conversion feature as a debt discount, which was amortized to interest expense over the term of the debentures. On December 16, 2002, the Company's Board of Directors approved a

F-15

GOLFGEAR INTERNATIONAL AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

modification to the original debenture agreement to provide for the exercise of warrants prior to the conversion of the debentures. The Company estimated the fair value of the warrants at the date of the modification and reallocated \$600,000 of the original debt discount of \$2,100,000 to the warrants based on the relative fair values of the warrants and beneficial conversion feature as of December 16, 2002. The estimated fair value of the warrants was amortized over the remaining term of the debentures.

In connection with the issuance of the debentures, the Company issued

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

420,000 shares of the Company's common stock valued at \$105,000 to Wyngate as a finder's fee. In addition, the Company granted Wyngate a warrant to purchase 420,000 shares of the Company's common stock at an exercise price of \$0.10 per share, which were exercisable for a period of eighteen months. The warrants were valued at \$172,200 using the Black-Scholes option-pricing model. In addition, the Company issued 540,000 shares of the Company's common stock valued at \$135,000 as a finder's fee to an unrelated third party. The Company also paid legal fees of \$29,934 related to the financing.

The costs incurred in connection with the financing were capitalized as deferred financing costs and were amortized over the term of the convertible debentures. Amortization of deferred financing costs was \$270,193 during the year ended December 31, 2003 and is included in interest expense in the accompanying consolidated statement of operations.

During the year ended December 31, 2003, the Company repaid \$700,000 in debentures, including accrued interest. As of December 31, 2003, \$1,400,000 in debentures were in default. In January and February 2004, the Company repaid an additional \$200,000 in debentures, including accrued interest, which was satisfied with approximately \$122,000 in cash and inventories valued at \$100,000. The Company continues to accrue interest on all outstanding debentures at the face rate of interest.

Interest expense related to the convertible debentures was \$98,546 and \$1,317,754 for the years ended December 31, 2004 and 2003, respectively, of which \$1,159,739 in 2003 related to the amortization of the debt discount. Accrued interest at December 31, 2004 and 2003 was \$242,638 and \$166,259, respectively.

11. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases its facilities and various equipment under non-cancelable operating leases which expire at various dates through February 2006.

In December 2003, the Company entered into a five-year lease for a facility in Rancho Mirage, California. In May 2004, the Company closed this facility. The landlord has filed a complaint against the Company and is seeking \$40,040 in damages. Prior to June 2004, the Company was leasing its corporate facility in Huntington Beach, California under a non-cancelable operating lease, which was scheduled to expire in July 2005. In June 2004, the Company relocated its corporate facility to Garden Grove, California. In March 2005, the landlord of the Huntington Beach facility was awarded a judgment in the amount of approximately \$25,800, and the Company was released from its obligation under this office lease.

The Company is currently leasing a 2,000 square foot corporate facility in Garden Grove, California under a non-cancelable operating lease which expires on August 31, 2005. The lease requires monthly base rent of \$1,740, plus monthly common area maintenance charges.

Future annual minimum lease payments required under these non-cancelable operating leases is as follows at December 31, 2004:

Year Ending December 31,

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

2005	\$ 14,712
2006	132

	\$ 14,844

Rent expense was \$67,510 and \$112,730 for the years ended December 31, 2004 and 2003, respectively.

F-16

GOLFGEAR INTERNATIONAL AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Litigation

On December 18, 2003, the Company received a resignation letter from Donald A. Anderson as a member of the Board of Directors of the Company. On December 19, 2003, Mr. Anderson also resigned as Chief Executive Officer of the Company. Prior to his resignation, on or about November 8, 2003, Mr. Anderson was suspended pending an investigation into possible violations of his employment contract with the Company and breach of fiduciary duty.

On November 18, 2003, Mr. Anderson filed a complaint against the Company and its officers for breach of written contract, wrongful termination of employment and slander. Subsequently, the Company filed a cross complaint against Mr. Anderson for, among other things, breach of fiduciary duty and breach of written contract.

On June 23, 2004, the Company, its officers and Mr. Anderson entered into a Settlement Agreement (the "Settlement Agreement"), wherein, among other things, the Company withdrew its allegation that Mr. Anderson breached his fiduciary duties. Pursuant to the terms of the Settlement Agreement, the Company agreed to (i) pay Mr. Anderson \$165,000 in varying installments through January 30, 2006, (ii) transfer the title of a 1996 Ford custom tour van (with a net book value of approximately \$7,000) owned by the Company to Mr. Anderson, and remove Mr. Anderson as a guarantor from certain Company debt obligations. In return, Mr. Anderson returned to the Company 994,110 shares of the Company's common stock owned by him valued at approximately \$30,000 (fair market value of the Company's stock on the settlement date). As of December 31, 2003, the Company recorded a net liability of approximately \$142,000 related to the settlement of this lawsuit. Mr. Anderson also agreed to convert \$60,000 in debentures, including accrued interest, held by him into shares of the Company's common stock at a conversion rate of \$0.095 per share. These debentures were converted into 753,000 shares of the Company's common stock on February 23, 2005.

The Company is currently in default for payment of amounts due to Mr. Anderson under the Settlement Agreement. On February 15, 2005, Mr. Anderson received a judgment for \$76,310 due to him under the terms of the Settlement Agreement. Pursuant to the Settlement Agreement, the Company agreed to issue a new stock certificate to Mr. Anderson for a stolen stock certificate for 2,642,625 shares of the Company's common stock. As of August 1, 2005, the Company has not issued this stock certificate. Mr. Anderson will dismiss the lawsuit upon the Company's full performance of the Settlement Agreement.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

In March 2004, holders in the amount of \$200,000 of the Company's convertible debentures filed suit against the Company claiming, among other things, breach of written contract and default under security agreement and possession of collateral. The plaintiffs are seeking repayment of the principal amount of the debentures, including accrued interest, which matured on January 6, 2004, and possession of the intellectual property, including patents and trademarks, which collateralized the debentures. The parties are currently attempting to reach agreement on resolving this action in its entirety.

From time to time the Company is involved in various types of litigation in the normal course of business, none of which is considered material at this time.

Indemnities and Guarantees

The Company has executed certain contractual indemnities and guarantees, under which it may be required to make payments to a guaranteed or indemnified party. The Company also has agreed to indemnify its directors, officers, employees and agents to the maximum extent permitted under the laws of the State of Nevada. In connection with a certain facility lease, the Company has indemnified its lessor for certain claims arising from the use of the facilities. The duration of the guarantees and indemnities varies, and in many cases is indefinite. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated to make any payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying consolidated balance sheets.

12. RELATED PARTY TRANSACTIONS

See Notes 9, 10, 14 and 15 for related party transactions.

F-17

GOLFGEAR INTERNATIONAL AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

13. INCOME TAXES

For the years ended December 31, 2004 and 2003, the provision for income taxes consists of the following:

	2004	2003
	-----	-----
Current:		
Federal	\$ --	\$ --
State	2,400	2,400
	-----	-----
	2,400	2,400
	-----	-----
Deferred:		
Federal	--	--
State	--	--
	-----	-----
	\$2,400	\$2,400
	=====	=====

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

The reconciliation of the effective tax rate to the federal statutory rate is as follows for the years ended December 31:

	2004	2003
	-----	-----
Federal income tax rate	-34.00%	-34.00%
Interest expense on convertible debt	18.53%	9.43%
Increase in valuation allowance	14.93%	24.22%
Other	0.67%	0.41%
	-----	-----
	0.13%	0.06%
	=====	=====

The tax effects of the major items recorded as deferred tax assets and liabilities at December 31, 2004 and 2003 are as follows:

	2004	2003
	-----	-----
Net operating loss carryforwards	\$ 4,688,883	\$ 4,385,281
Receivable and inventory allowances	16,187	21,297
Accruals	184,484	153,762
Other	607	4,034
	-----	-----
	4,890,161	4,564,374
Valuation allowance	(4,890,161)	(4,564,374)
	-----	-----
	\$ --	\$ --
	=====	=====

Deferred income taxes are provided for the tax effects of net operating loss carry-forwards and temporary differences in the reporting of income for financial statement and income tax reporting purposes, and arise principally from the use of different methods in reporting deductions for bad debts, inventory reserves and accruals.

As of December 31, 2004, the Company has federal net operating loss carry-forwards of approximately \$11,832,000. The carry-forwards expire through 2018 for federal purposes. As of December 31, 2004, the Company has state net operating loss carry-forwards of approximately \$7,499,000. The carry-forwards expire through 2014 for state purposes. The deferred tax benefit has been offset by a valuation allowance due to the realization of these carry-forwards being doubtful. No deferred tax asset has been recognized in the financial statements due to this uncertainty.

F-18

GOLFGEAR INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

14. STOCKHOLDERS' EQUITY

Stock Purchase Agreement

On April 8, 2002, the Company entered into a stock purchase agreement (the "Agreement") with Wyngate whereby Wyngate agreed to purchase 15,000,000 shares of the Company's common stock at \$0.075 per share for

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

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 Stock Purchase Note with interest at 2.88% per annum in favor of the Company for the balance of \$924,975. Pursuant to the Stock Purchase Note, the balance was due and payable October 8, 2003. The Stock Purchase Note was secured pursuant to a stock pledge agreement that initially pledged 12,333,000 shares of the common stock, which was held by the Company as security for payment of the Stock Purchase Note. As additional consideration for lending the Company \$200,000 as described in Note 9, the Company amended a previously executed stock pledge agreement and agreed to the release of 9,029,518 shares of common stock held as collateral under the terms of the Stock Purchase Note.

In conjunction with the Agreement executed by Wyngate, Wyngate and its President, Peter H. Pocklington, had the exclusive right for a period of 90 days to implement a second stage of financing in the form of the sale by the Company to accredited investors only of convertible debentures (see Note 10) in an aggregate amount ranging from a minimum of \$2,000,000 to a maximum of \$4,000,000, which would have been convertible into common stock at \$0.25 per share for a period of 12 months commencing six months after the initial sale of the debentures. Such financing was completed and closed on June 6, 2002 (see Note 10). The Company's patents, trademarks, and other intangible assets secured the debentures.

The Agreement also provided that Peter H. Pocklington had the right for an 18 month period to merge Meditron Medical, Inc. ("Meditron"), a Canadian corporation controlled by Mr. Pocklington, into the Company in a reverse merger transaction through the issuance of the Company's common stock, at an agreed value of \$0.25 per share. The value of Meditron was to be determined by obtaining a fairness opinion from a reliable investment banking firm. Meditron is engaged in the medical manufacturing sales business.

On July 17, 2003, Mr. Pocklington, Wyngate and Quincy (collectively, the "Parties") jointly and collectively entered into an agreement with the Company whereby the Parties satisfied the then outstanding balance of the Stock Purchase Note of \$924,975, including accrued interest of \$35,423, in exchange for (i) a cash payment of \$225,000, (ii) the conversion of the \$200,000 note payable to stockholder, including accrued interest of \$14,710 to equity (see Note 10), (iii) the cancellation of Meditron's right (valued at \$150,000 and recorded as a loss on settlement of stock purchase note receivable) to merge with the Company, and (iv) the assumption of \$370,688 of the Company's existing notes payable and certain accounts payable obligations.

Warrants

From time to time, the Company issues warrants in connection with its financing and consulting agreements. Information regarding the Company's warrant activity for years ended December 31, 2004 and 2003 is as follows:

	Shares Underlying Warrants	Weighted Average Exercise Price	Weighted Average Fair Value	Exercisa
Balance, January 1, 2003	9,657,500	\$ 0.14		9,657,5
Granted	2,800,922	\$ 0.05	\$ 0.05	
Exercised	(2,800,000)	\$ 0.10		

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

Canceled/Expired	(2,847,500)	\$ 0.11	

Balance, December 31, 2003	6,810,922	\$ 0.13	6,810,9
Granted	-	\$ --	
Exercised	-	\$ --	
Canceled/Expired	(6,170,922)	\$ 0.10	

Balance, December 31, 2004	640,000	\$ 0.41	640,0
	=====		

F-19

GOLFGEAR INTERNATIONAL AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2004 AND 2003

During the year ended December 31, 2003, the Company issued 2,800,922 warrants in connection with the conversion of debentures due to MC Corp, which expired unexercised (See Note 9). During 2003, the Company received \$280,000 in proceeds from the exercise of 2,800,000 warrants held by certain convertible debenture holders.

The following table summarizes the information about warrants outstanding at December 31, 2004:

Exercise Price	Share Underlying	Weighted Average Remaining Contractual Life	Exercisable
\$ 0.35	390,000	1	390,000
\$ 0.50	250,000	1	250,000
	-----		-----
	640,000		640,000
	=====		=====

Stock Options

In October 1997, the Board of Directors of the Company approved the GolfGear International, Inc. 1997 Stock Option Plan (the "1997 Plan"). The 1997 Plan is intended to allow designated officers and employees and certain non-employees of the Company to receive stock options to purchase the Company's common stock and to receive grants of common stock subject to certain restrictions, as more fully described in the 1997 Plan. The 1997 Plan has reserved 2,642,625 shares of the Company's common stock, subject to adjustments, to be issued under the 1997 Plan.

The 1997 Plan provides for the granting to employees (including employees who are also directors and officers) of options intended to qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and for the granting of non-statutory stock options to directors, employees and consultants. The Board of Directors of the Company currently administers the 1997 Plan.

The exercise price per share of incentive stock options granted under the 1997 Plan must be at least equal to the fair market value of the common stock on the date of the grant. With respect to any participant who owns shares representing more than 10% of the voting power of all

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

classes of the Company's outstanding capital stock, the exercise price of any incentive or non-statutory stock options must be equal to at least 110% of the fair market value of the grant date, and the maximum term of the option must not exceed five years. Upon a merger of the Company, the options outstanding under the 1997 Plan will terminate unless assumed or substituted by the successor corporation. As of December 31, 2004, 1,138,330 options have been granted and 1,504,295 options are available for grant under the 1997 Plan.

Activity regarding the Company's stock options for the years ended December 31, 2004 and 2003 is as follows:

	Shares Underlying Options	Weighted Average Exercise Price	Weighted Average Fair Value	Exercisable
Balance, January 1, 2003	12,044,997	\$ 0.31		5,532,497
Granted	33,332	\$ 0.25	\$ 0.13	
Canceled/Expired	(6,671,667)	\$ 0.25		
Exercised	(50,000)	\$ 0.01		
Balance, December 31, 2003	5,356,662	\$ 0.39		5,281,662
Granted	--			
Canceled/Expired	(210,000)	\$ 0.47		
Exercised	--			
Balance, December 31, 2004	5,146,662	\$ 0.39		5,096,662

F-20

GOLFGEAR INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

The following table summarizes the information about stock options outstanding at December 31, 2004:

Exercise Price	Shares Underlying Options	Weighted Average Remaining Contractual Life	Exercisable
\$ 0.10	1,000,000	8.0	1,000,000
\$ 0.20	2,333,333	8.0	2,333,333
\$ 0.25	83,329	1.5	83,329
\$ 0.31	100,000	8.0	50,000
\$ 0.50	1,125,000	1.5	1,125,000
\$ 0.55	325,000	1.0	325,000
\$ 1.50	50,000	1.0	50,000
\$ 2.50	15,000	1.0	15,000
\$ 3.50	50,000	1.0	50,000
\$ 4.50	25,000	1.0	25,000
\$ 5.50	15,000	1.0	15,000

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

\$	6.50	25,000	1.0	25,000
		-----		-----
		5,146,662		5,096,662
		=====		=====

The fair value of the warrants and options granted is estimated on the date of grant using the Black-Scholes option pricing model with following weighted-average assumptions for 2003 (none granted in 2004): dividend yield of 0%; volatility of 72%; risk-free interest rate of 3.66% and an expected life of five years.

15. SUBSEQUENT EVENTS

From January 2005 through August 1, 2005, a director and stockholder has advanced approximately \$74,000 to the Company to be used for working capital. The Company has received these funds and recorded them as notes payable to stockholder during 2005.

On January 14, 2005, the Company secured a commitment for a \$10,000,000 private placement offering whereby a third party investor (the "Investor") will purchase up to \$10,000,000 of the Company's common stock over a twenty-four month period to provide the Company with operating capital. Funding is subject to, among other things, the Company filing a registration statement with the U.S. Securities and Exchange Commission with respect to the resale of common stock sold in the private placement offering. The Company is currently working towards satisfying all conditions precedent to closing the funding, but there can be no assurance that the Company will be successful in satisfying these terms. In connection with the funding commitment, the Company paid a structuring fee of \$10,000 and issued 2,000,000 shares of the Company's common stock to the Investor as a commitment fee.

On February 23, 2005, a debenture for \$60,000, including accrued interest, was converted to 753,000 shares of the Company's common stock. (See Note 10).

F-21

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

There have been no disagreements with the Company's independent registered public accounting firm on accounting or financial disclosure.

ITEM 8A: CONTROLS AND PROCEDURES

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2004. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2004, our disclosure controls and procedures are effective. There have been no significant changes in our internal controls over financial reporting during the quarter ended December 31, 2004 that have materially affected or are reasonably likely to materially affect such controls.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed,

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Internal Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

ITEM 8B: OTHER INFORMATION

None

21

PART III

ITEM 9: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table and text sets forth the names and ages of all directors and executive officers of the Company as of July 22, 2005:

Name	Age	Position
Peter H. Pocklington	60	Chairman of the Board
Daniel Wright	48	President, Chief Operating Officer and Chief Financial Officer
Naoya Kinoshita	40	Director
Donald Berry	47	Director
Michael J Gobuty	60	Director

Peter H. Pocklington, Chairman of the Board

Mr. Pocklington, a Canadian citizen, began his business career as the

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

owner of a successful Ford dealership in Ontario, Canada. By 1975 Mr. Pocklington became the largest Ford dealer in Canada with business interests generating over \$100 million in annual sales. Throughout the 1970's and 1980's Mr. Pocklington invested in real estate and, by 1985, had accumulated substantial real estate assets. In addition from 1977 to 1998, he owned and operated one of the most successful sports franchises in history, the Edmonton Oilers Hockey Team that won five (5) Stanley Cups. In 1983 Mr. Pocklington ran unsuccessfully for national political office in Canada. Over the past few years he has made investments and actively participates in the management of GolfGear International, Inc. and Meditron Medical, Inc. (a Canadian Corporation). Mr. Pocklington is very active in charity work.

Daniel Wright, President, Chief Operating Officer, and Chief Financial Officer

Mr. Wright has been with the Company since May 2001 serving as its Chief Financial Officer and a director. Mr. Wright has over eleven (11) years in senior management positions within the golf industry. He began his career in the golf industry with Tru-Form Golf as their controller. Tru-Form Golf manufactured clubs and accessories originally severing as the house brand name for the Nevada Bob retail chain. After more then four (4) years with Tru-Form Golf, Mr. Wright joined Grip Technology, Inc., a publicly traded company, ("GTI") as its controller and CFO. GTI manufactured golf grips for both OEMs and retail outlets. GTI filed for bankruptcy in 1999. In addition to Mr. Wright's golf industry experience he has worked in the medical and direct market industries and has several years experience with local accounting firms. Mr. Wright has his bachelors in accounting and finance.

Naoya Kinoshita

Mr. Kinoshita is President of MC Corporation, which he founded in 1990 and is involved in real estate development and management. In 1995, Mr. Kinoshita began development, construction and sales of generational housing; i.e., housing for two generations of family (parents and offspring under one roof), as well as imported housing sales from outside Japan. During the same year he started an Internet service provider business. In 1996, Mr. Kinoshita combined his experience in real estate development and the Internet to construct and sell the first Internet line pre-installed condominium in Japan. More recently, he commenced the design, construction, and sales of 2x4 housing which utilized fewer chemicals, and more natural materials to promote healthy living for the resident. Mr. Kinoshita has extensive expertise in real estate development, information processing, sales, management, and distribution. Mr. Kinoshita has served as a Director since December 2003.

Donald Berry, Director

Mr. Berry is regarded as one of Canada's premier health care sales and marketing executives. In 1997 as the Vice President of Western Canada for Ingram and Bell Medical, where he drove the company from number three in market share to number one in market position. While at Ingram and Bell the Western Division contributed more then 50% of the company's annual gross profit despite the fact that Western Canada is less then 30% of the Canadian population. In 2002 Mr. Berry formed a partnership with Medical Mart Supplies West. As Executive Vice President and General Manager the Company has grown from negligible sales to over \$7 million in a three year period.

22

Michael J. Gobuty, Director

Mr. Gobuty started with Victoria Leather Garment MFG. Co. Ltd. in 1958.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

From an entry level position in the receiving department, he worked progressively through every job description in the organization to a position of complete control of the company. One of the largest companies of its kind in Canada, Victoria Leather manufactured and sold full lines of leather outerwear and sportswear. Currently Mr. Gobuty is in dual control of Gobuty's & Son's, where he is responsible for the production and sourcing of manufacturing in main land China.

ITEM 10: EXECUTIVE COMPENSATION

The following table sets forth the cash compensation paid by the Company to its Chief Executive Officer, who is the only officer who was paid aggregate compensation exceeding \$100,000 for the past three years.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual compensation			Long-term co	
		Salary (\$)	Bonus (\$)	Other annual compensation (\$)	Awards Stock Award(s) (\$)	Securities Underlying options/ SARs (#)
Daniel Wright CEO and CFO	2004	120,000	0	8,400 (4)	0	0
	2003	93,462	0	0	0	33,332
	2002	64,263	0	0	0	33,332
Donald A. Anderson Former CEO (6)	2004	--	0	0	0	0
	2003	88,468	0	5,933 (2)	0	0
	2002	107,619	0	17,155 (1)	0	5,000,000
John Pierandozzi President (3)	2004	60,000	0	4,200 (5)	0	0
	2003	51,231	0	0	0	0
	2002	--	0	0	0	0

(1) Includes \$5,972 for medical insurance premiums and \$2,183 for life insurance premiums paid on behalf of Mr. Anderson. Also includes auto allowance of \$9,000.

(2) Includes \$2,183 for life insurance premiums paid on behalf of Mr. Anderson. Also includes auto allowance of \$3,750.

(3) Mr. Pierandozzi, President, assumed Mr. Anderson's responsibilities on December 19, 2003, the date of Mr. Anderson's resignation as Chief Executive Officer. Mr. Pierandozzi resigned on October 14, 2004.

(4) Includes auto allowance of \$8,400.

(5) Includes auto allowance of \$4,200.

(6) Mr. Anderson resigned on December 19, 2003.

The following table sets forth certain information with respect to options held

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

by the named officers at December 31, 2004.

Aggregated Options/SAR Exercises in Last Fiscal Year and FY-End Option/SAR					
Name	Shares acquired on on exercise	Value Realized (\\$)	Number of securities underlying unexercised options/SARs at FY-end (#)		
			Exercisable	Unexercisable	Ex
Daniel Wright	--	--	83,333	--	
Donald A. Anderson	--	--	1,733,333(1)	--	
John Pierandozzi	--	--	--	--	

(1) Effective with Mr. Anderson's resignation on December 19, 2003, 3,666,667 options were canceled.

ITEM 11: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows the beneficial ownership of our shares of common stock as of July 22, 2005 by (i) each person who is known by us to be the beneficial owner of more than five percent (5%) of our common stock, (ii) each of our directors and executive officers and (iii) all directors and executive officers as a group. Except as otherwise indicated, the beneficial owners listed in the table have sole voting and investment powers of their shares.

Name and Address (1)	Number of Shares	Percentage Owned
Mr. Peter H. Pocklington Quincy Investment Corp 47-111 Vintage Dr. East #309 Indian Wells, CA 92210	15,000,000 (1)	45% (2)
Mr. Naoya Kinoshita MC Corporation Terasiosu Bldg, 6-7-2 Minami Aoama Minato-Ku Tokyo, Japan 107-0062	5,800,922 (1)	44% (2)

(1) The indicated shares represent the number of outstanding securities owned by the beneficial owner, and does not include the number of securities which would be held upon conversion of debt or equity instruments.

(2) The indicated percentage includes outstanding securities owned and any securities that each beneficial owner has the right to acquire upon conversion of debt or equity securities.

ITEM 12: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On December 30, 2003, GolfGear International, Inc. (the "Company") completed the sale of \$1,000,000 of Convertible Debentures. The Debentures are automatically converted into Preferred Stock at \$1.00 per share within ninety days of the date of issuance. Holders of the Preferred stock shall have the right to convert the Preferred stock into shares of Common Stock of the Company at conversion rates of 158 to 1, and 161 to 1. The Preferred stock are

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

convertible upon any of the following: eighteen months after the issuance of the Preferred Stock, a Change in Control or upon the date the Company is no longer required to file reports or financial statements with the United States Securities Exchange Commission. If the Company is not able to convert this Debenture into shares of Preferred within ninety days from the date of issuance the Debentures shall become immediately due and payable in full, with interest accruing on the face amount at a rate of 5% per annum. Currently the Debentures are in default, but the holders have made no demands at this time.

24

On October 7, 2003 (the "Company") completed the sale of \$250,000 of convertible debentures to related parties. The debentures are convertible into common stock at \$0.09 per share for a period of 3 months for each share of common stock issued upon conversion of the debentures, 1 common stock purchase warrant will be issued, which will be exercisable for a period of 12 months at \$0.045 per share. This debenture has been converted into 2,800,922 shares of common stock in December 2003.

From January 2004 through July 2005, a director and stockholder has advanced approximately \$240,000 to the Company to be used for working capital. The Company has received these funds and recorded them as notes payable to stockholder of approximately \$166,000 in 2004 and \$74,000 during 2005. The advances bear interest at 6% per annum and are due on demand.

See Notes 9, 10, 14 and 15 to the consolidated financial statements included elsewhere herein for additional related party transactions.

ITEM 13: EXHIBITS

(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 (MC Corporation) (1)
- 4.4 Certificate of Determination (1)
- 10.1 Distribution Agreement (MC Corporation) (1)
- 10.10 GolfGear International, Inc. 1997 Stock Incentive Plan (1) (C)
- 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 Alliss (3)
- 10.17 Exclusive Distribution Agreement (4)

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

- 10.18 Subscription Agreement dated March 7, 2002(6)
- 10.19 Stock Purchase Agreement dated April 8, 2002(6)
- 10.20 Promissory Note dated April 8, 2002(6)
- 10.21 Stock Pledge Agreement dated April 8, 2002(6)
- 10.22 Employment Agreement (Michael A. Piraino) (4)
- 10.23 Employment Agreement (Donald A. Anderson) (4)
- 10.24 Loan Agreement (Peter H. Pocklington) (4)
- 10.25 Employment Agreement (Chris Holiday) (4)
- 10.26 Attorney Fee Agreement (Fulbright & Jaworski LLP) (4)
- 10.27 Non-Exclusive License Agreement (Nike, Inc.) (5)
- 21 Subsidiaries of the Registrant (1)
- 31 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 (7)
- 32 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (7)
- 99.1 Patents (1)
- 99.2 Trademarks (1)
- 99.3 Certifications Pursuant to Sarbanes-Oxley Act of 2002 (4)

25

Footnotes:

- (1) Previously filed as an Exhibit to the Company's Registration Statement on Form 10-SB dated November 11, 1999, and incorporated herein by reference.
- (2) Previously filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1999, and incorporated herein by reference.
- (3) Previously filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2000, and incorporated herein by reference.
- (4) Previously filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002, and incorporated herein by reference.
- (5) Previously filed as an Exhibit to the Company's Annual Report on Form 10-QSB for the quarter ended March 31, 2003, and incorporated herein by reference.
- (6) Previously filed as Exhibits to the Company's Report on Form 8-K.

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

(7) Filed herewith

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

On October 21, 2003 the Company received notice from its current auditors, Good, Swartz, Brown and Berns, LLP ("GSBB"), that they will no longer provide audit services to SEC reporting companies, and are therefore resigning as the Company's independent auditors.

Effective November 8, 2003 the Board of Directors approved the engagement of Corbin & Company, LLP ("C&C") as its independent registered public accounting firm for the fiscal year ending December 31, 2003. The Company did not consult with C&C prior to their retention.

During the past two years, GSBB's audit opinion on the Registrant's financial statements did not contain an adverse opinion or a disclaimer of opinion, nor was it modified as to audit scope or accounting principles. GSBB's report was modified to include an explanatory paragraph where they expressed substantial doubt about the Registrant's ability to continue as a going concern.

There were no disagreements with GSBB during the past two most recent fiscal years and through the date of their dismissal on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

Audit and Non-Audit Fees

Aggregate fees for professional services rendered to the Company by Corbin & Company LLP and its predecessor firm GSBB for the years ended December 31, 2004 and 2003 were as follows:

Services Provided	2004	2003
Audit Fees	\$37,500	\$43,000
Audit Related Fees	\$ --	\$ --
Tax Fees	\$ --	\$ --
All Other Fees	\$ --	\$50,605
Total	\$37,500	\$93,605

Audit Fees

The aggregate fees billed for the years ended December 31, 2004 and 2003 were for the audits of our financial statements and reviews of our interim financial statements included in our annual and quarterly reports.

Audit Related Fees

There were no fees billed for the years ended December 31, 2004 and 2003 for the audit or review of our financial statements that are not reported under Audit Fees.

Tax Fees

There were no fees billed for the years ended December 31, 2004 and 2003 for professional services related to tax compliance, tax advice and tax planning.

All Other Fees

Edgar Filing: GOLFGEAR INTERNATIONAL INC - Form 10KSB

The aggregate fees billed for the years ended December 31, 2004 and 2003 were for services other than the services described above. These services include attendance and preparation for shareholder and audit committee meetings, consultation on accounting, on internal control matters and review of and consultation on our registration statements and issuance of related consents (Forms S-3 and S-8).

26

SIGNATURES

In accordance with Section 13 or 15(d) 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: September 16, 2005 /s/ Daniel C. Wright

Daniel C. Wright
President, Chief Operating Officer
and Chief Financial Officer

In accordance with the Exchange Act, the following persons on behalf of the registrant and in the capacities and on the dates indicated have signed this report.

Date: September 16, 2005 /s/ Peter H. Pocklington

Peter H. Pocklington
Chairman of the Board

Date: September 16, 2005 /s/ Naoya Kinoshita

Naoya Kinoshita
Director

Date: September 16, 2005 /s/ Donald Berry

Donald Berry
Director

Date: September 16, 2005 /s/ Michael J Gobuty

Michael J Gobuty
Director

EXHIBIT INDEX

- Exhibit 31 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a).

- Exhibit 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.