

REWARD ENTERPRISES INC
Form 10QSB
February 10, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-QSB

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

For the Quarter Ended December 31, 2003

Commission File Number 000-31233

Reward Enterprises, Inc.

(Name of Issuer)

Nevada

(State of Incorporation)

000-27259

(Commission File No.)

98-0203927

(IRS Employer Identification No.)

1327 Ocean Avenue, Suite M

Santa Monica, California 90401

(Address of principal executive offices)

(310) 395-5374

(Registrant's telephone number)

Transitional Small business Disclosure Format (Check one): Yes No

PART I

ITEM 1. FINANCIAL STATEMENTS

REWARD ENTERPRISES, INC.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS

| | December 31, 2003 (Unaudited) | June 30, 2003 |
|--|-------------------------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 117 \$ | 12,835 |
| Accounts receivable, related party | - | - |
| TOTAL CURRENT ASSETS | 117 | 12,835 |
| PROPERTY AND EQUIPMENT | | |
| Telecommunications Equipment | 51,600 | 51,600 |
| Website | 145,979 | 145,979 |
| Accumulated depreciation and amortization | (63,258) | (48,660) |
| TOTAL PROPERTY AND EQUIPMENT | 134,321 | 148,919 |
| OTHER ASSETS | | |
| Goodwill | - | - |
| TOTAL ASSETS | 134,438 \$ | 161,754 |
| LIABILITIES & STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | 111,217 \$ | 35,717 |
| Interest payable | 14,638 | 8,313 |
| Notes payable, net of discount | 81,500 | 70,000 |
| Deferred income from Joint Venture | 175,000 | 175,000 |
| TOTAL CURRENT LIABILITIES | 382,355 | 289,030 |
| COMMITMENTS AND CONTINGENCIES | - | - |
| STOCKHOLDERS' EQUITY | | |
| Common stock, 200,000,000 shares authorized, \$0.001 par value; 18,722,000 and 18,722,000 shares issued and outstanding, respectively | 18,722 | 18,722 |
| Additional paid-in capital | 2,941,593 | 2,941,593 |
| Stock options | 10,400 | 10,400 |
| Accumulated deficit during development stage | (3,218,632) | (3,097,991) |
| TOTAL STOCKHOLDERS' EQUITY | (247,917) | (127,276) |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | 134,438 \$ | 161,754 |

**REWARD
ENTERPRISES, INC.**
(A Development Stage
Company)

**CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS**

| | Three Months Ended December 31,2003 (Unaudited) | Three Months Ended December 31,2002 (Unaudited) | Six Months Ended December 31,2003 (Unaudited) | Six Months Ended December 31 2002 (Unaudited) | December 12,1997 (Inception) Through December 31,2003 (Unaudited) |
|---------------------------------|--|--|--|--|--|
| REVENUES | - | - | - | - | - |
| EXPENSES | | | | | |
| Consulting fees | 20,000 | 34,000 | 76,250 | 55,000 | 507,888 |
| General and administrative | 10,113 | 30,945 | 22,847 | 50,380 | 173,170 |
| Legal and professional fees | - | 5,551 | - | 12,051 | 174,211 |
| Travel and entertainment | 39 | 3,182 | 621 | 11,383 | 49,506 |
| Depreciation and amortization | 7,299 | 7,299 | 14,598 | 14,598 | 67,024 |
| Research and development | - | 955 | - | 2,705 | 88,035 |
| Loss on impairment of asset | | - | | - | 2,165,160 |
| TOTAL OPERATING EXPENSES | 37,451 | 81,932 | 114,316 | 146,117 | 3,224,994 |
| OTHER INCOME AND EXPENSE | | | | | |
| Interest expense | 3,300 | 1,512 | 6,325 | 5,024 | 18,638 |
| Gain from debt forgiveness | - | - | - | - | (25,000) |
| TOTAL OTHER EXPENSE | 3,300 | 1,512 | 6,325 | 5,024 | (6,362) |
| LOSS BEFORE INCOME TAXES | (40,751) | (83,444) | (120,641) | (151,141) | (3,218,632) |
| | - | - | - | - | - |

PROVISION FOR TAXES

| | | | | | |
|-----------------|-----------------|-----------------|------------------|------------------|--------------------|
| NET LOSS | (40,751) | (83,444) | (120,641) | (151,141) | (3,218,632) |
|-----------------|-----------------|-----------------|------------------|------------------|--------------------|

OTHER COMPREHENSIVE INCOME (LOSS)

| | | | | | |
|---|----------|----------|----------|----------|----------|
| Foreign currency translation gain (loss) | - | - | - | - | - |
|---|----------|----------|----------|----------|----------|

| | | | | | |
|---------------------------|-----------------|-----------------|------------------|------------------|--------------------|
| COMPREHENSIVE LOSS | (40,751) | (83,444) | (120,641) | (151,141) | (3,218,632) |
|---------------------------|-----------------|-----------------|------------------|------------------|--------------------|

BASIC AND DILUTED

| | | | | |
|----------------------------------|---------------|---------------|---------------|---------------|
| NET LOSS PER COMMON SHARE | (0.00) | (0.00) | (0.01) | (0.01) |
|----------------------------------|---------------|---------------|---------------|---------------|

WEIGHTED AVERAGE NUMBER OF

| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| COMMON STOCK SHARES OUTSTANDING | 18,722,000 | 18,690,132 | 18,722,000 | 18,281,035 |
|--|-------------------|-------------------|-------------------|-------------------|

| | Common Stock Number of Shares | Additional Paid-in | Subscriptions Receivable | Stock Options and Warrants | Accumulated Deficit During Development Stage | Total Stockholders Equity |
|--|----------------------------------|--------------------|--------------------------|----------------------------|--|---------------------------|
| Issuance of common stock in April 1998 for services valued at \$0.01 per share | 1,000,000 | 1,000 | 9,000 | (10,000) | - | - |
| Net loss for period ending June 30, 1998 | - | - | - | - | (10,000) | (10,000) |
| Balance, June 30, 1998 | 1,000,000 | 1,000 | 9,000 | (10,000) | (10,000) | (10,000) |
| Issuance of common stock in May 1999 for cash at an average of \$0.10 per share | 1,715,000 | 1,715 | 169,785 | - | - | 171,500 |
| | - | - | - | - | (62,506) | (62,506) |

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| | | | | | | | |
|---|--------------|----------|-----------|----------|---|-----------|-----------|
| Net loss for year ending June 30, 1999 | | | | | | | |
| Balance, June 30, 1999 | 2,715,000 | 2,715 | 178,785 | (10,000) | - | (72,506) | 98,994 |
| Payables provided for stock subscription | - | - | - | 10,000 | - | - | 10,000 |
| Net loss for year ending June 30, 2000 | - | - | - | - | - | (228,659) | (228,659) |
| Balance, June 30, 2000 | 2,715,000 | 2,715 | 178,785 | - | - | (301,165) | (119,665) |
| Issuance of common stock in October 2000 for cash at \$0.001 per share | 10,000,000 | 10,000 | - | - | - | - | 10,000 |
| Issuance of common stock in October 2000 for payment on loans payable at \$0.001 per share | 200,000 | 200 | - | - | - | - | 200 |
| Stock options exercised at an average of \$0.10 per share in exchange for consulting fees | 2,230,000 | 2,230 | 222,770 | - | - | - | 225,000 |
| Stock options exercised at an average of \$0.14 per share in exchange for cash | 1,325,000 | 1,325 | 179,925 | - | - | - | 181,250 |
| Net loss for the year ended June 30, 2001 | - | - | - | - | - | (151,401) | (151,401) |
| Balance, June 30, 2001 | 16,470,000 | 16,470 | 581,480 | - | - | (452,566) | 145,384 |
| Common stock issued in merger with Q-Presents, Inc. at \$0.35 per share | 6,000,000 | 6,000 | 2,094,000 | - | - | - | 2,100,000 |
| Common stock cancelled as part of merger with Q-Presents, Inc. | (10,200,000) | (10,200) | 10,200 | - | - | - | - |
| | 572,000 | 572 | 112,428 | - | - | - | 113,000 |

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| | | | | | | | |
|--|------------|--------|-----------|---|--------|-----------|-----------|
| Stock options exercised at an average of \$0.175 per share in exchange for cash | | | | | | | |
| Issuance of common stock in December 2001 for cash at \$0.001 per share | 890,000 | 890 | - | - | - | - | 890 |
| Issuance of common stock in exchange for services at \$0.005 per share | 2,945,000 | 2,945 | 11,780 | - | - | - | 14,725 |
| Stock options issued for compensation in December 2001 | - | - | - | - | 10,400 | - | 10,400 |
| Issuance of common stock in January and March 2002 for cash at an average of \$0.15 per share | 660,000 | 660 | 30,840 | - | - | - | 31,500 |
| Issuance of stock warrants attached to promissory notes in May 2002 | - | - | - | - | - | - | - |
| | 366,667 | 367 | 52,133 | - | - | - | 52,500 |
| Issuance of common stock in May and June 2002 for cash at an average of \$0.12 per share | | | | | | | |
| Net loss for the year ended June 30, 2002 | - | - | - | - | - | (238,921) | (238,921) |
| Balance, June 30, 2002 | 17,703,667 | 17,704 | 2,892,861 | - | 10,400 | (691,487) | 2,229,478 |
| Issuance of common stock in July and September 2002 for cash at an average of \$0.12 per share | 293,333 | 293 | 38,207 | - | - | - | 38,500 |
| | 725,000 | 725 | 6,525 | | | | 7,250 |

| | | | | | | | | |
|--|------------|--------|-----------|---|--------|-------------|--|-------------|
| Issuance of common stock in October 2002 for Consulting Services | | | | | | | | |
| Expiration of Stock Warrants, May, 2003 | | | 4,000 | | | | | 4000 |
| Net loss for the period ended June 30, 2003 | - | - | - | - | - | (2,406,504) | | (2,406,504) |
| Balance, June 30, 2003 | 18,722,000 | 18,722 | 2,941,593 | - | 10,400 | (3,097,991) | | (127,276) |
| Net loss for the period ended December 31, 2003 | - | - | - | - | - | (120,641) | | (120,641) |
| | 18,722,000 | 18,722 | 2,941,593 | - | 10,400 | (3,218,632) | | (247,917) |

Item. 2 Management's Discussion and Analysis or Plan of Operation

THE FOLLOWING ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION OF THE CORPORATION FOR THE PERIOD ENDING DECEMBER 31, 2003 SHOULD BE READ IN CONJUNCTION WITH THE CORPORATION'S CONSOLIDATED FINANCIALS STATEMENTS, INCLUDING THE NOTES THERETO, CONTAINED ELSEWHERE IN THIS FORM 10-QSB.

Reward Enterprises, Inc. (the "Corporation" or "Reward") was incorporated in December, 1997 as Sports Entertainment Productions Inc. to pursue opportunities around the world in the Internet based entertainment industry. The name was changed to Reward Enterprises, Inc. in July 1998. Its main objective has been to develop a profitable "Entertainment Mall" through an e-commerce secure "portal." Entertainment options offered would be videos, CDs, virtual casino-style games, free bingo, dice and specialty and interactive video games.

On June 15, 1999, Reward Nevis Group Inc., a wholly owned subsidiary of the Corporation entered into a non-exclusive software license agreement with Chartwell Technologies Inc, of Laguna Hills, California to acquire and develop all software necessary to conduct the Internet gaming activity and to handle all Internet cash transactions. This software is customized and is a full service gaming system that includes twelve casino games, a back-end administrative utility with remote access, I.P. Tracking, e-Commerce software and technical support. The license is non-exclusive and is currently licensed to others. The Corporation is restricted in the use of this technology and cannot sublicense it to others. It is for a period of two years and has provision for renewal for an additional two years. The royalty payable is 15% of gross revenues generated. Pursuant to the agreement, \$30,000 has been paid to Chartwell to date for the license, \$8,000 for the server from which to operate the software and the virtual casino and \$5,000 in the creative development of the CasinoReward.com Web site.

In early 2001, the Corporation became aware that it would likely not be able to continue with its efforts to develop an Internet gaming site, primarily as a result of the poor financial conditions in the marketplace. The

Board of Directors then commenced a search for a new opportunity that would allow the Corporation to remain active in the Internet sector on a profitable basis. Q Presents, Inc., a Santa Monica, California (hereinafter "QP") based private corporation, provided an ideal match which on April 12, 2001 resulted in an Acquisition Agreement between Reward and QP. In exchange for all the shares of QP, Reward would issue to QP shareholders a total of 6,000,000 shares of its common stock. Immediately following the issuance of the acquisition shares, the control block of 10,200,000 common stock shares owned by Mr. Robert Dinning and Mr. Brian Doutaz would be cancelled. The Acquisition Agreement was approved by the shareholders of both companies in August, 2001. The control block of 10,200,000 owned by Mr. Robert Dinning and Mr. Brian Doutaz was subsequently cancelled and the

Corporation issued 6,000,000 shares to QP shareholders. The Company's definitive proxy statement filed with the SEC on August 8, 2001 and its Form 8-K filed with the SEC on August 20, 2001 are incorporated herein by reference.

Q Presents, Inc. is a California corporation targeting the hotel and conference segment of the Event Automation industry. Q Presents, Inc. is in its launching stage and intends to provide localized and web based custom event registration and automation solutions to the high growth Event Automation market.

In conjunction with the Acquisition Agreement, the Corporation negotiated a cancellation of its Software License Agreement with Chartwell that included forgiveness of all debt owing to Chartwell and the elimination of any outstanding debt on the Balance Sheet. As part of the cancellation of the Agreement with Chartwell, the Corporation also turned over sundry computer equipment.

Mr. Edward W Withrow III, Mr. Warren K Withrow and Mr. Ron Hall were appointed as Directors of Reward Enterprises, Inc. Mr. Edward W. Withrow III was appointed as President and Co-Chief Executive Officer and Mr. Warren K. Withrow was appointed as Treasurer and Co-Chief Executive Officer.

In September 2001, the Board authorized the Corporation to enter into Consulting Agreements with both Mr. Edward W. Withrow III and Mr. Warren K. Withrow. The proposed Consulting Agreements called for terms of sixty (60) months, compensation of \$3,500.00 USD monthly and the issuance of two options to purchase the aggregate of 700,000 shares of the Corporation's common stock, respectively. The compensation under these agreements have been changed to \$10,000 per month, but will not become effective and payable until April 2002. The compensation under these agreements is currently being renegotiated. On May 16, 2002 Mr. Warren K. Withrow resigned as an officer and as a director of the Company. On July 1, 2002 Mr. Joseph Vigliarolo joined the Company as Chief Financial Officer.

The Corporation's new Management made the decision to balance its technology-based business model with a complimentary non-technical or "Old Economy" based business. Management made the decision to license the rights to an "Old Economy" business as opposed to creating one internally. New management has recently entered into the specialized international communications market to provide international voice, Internet access and global network services to corporate clients, communication carriers and Internet service providers. The Company will utilize the web-based platform that was originally intended as an event registration and automation solution for its telecommunication business.

RESULTS OF OPERATIONS

There were no revenues in the quarter ending December 31, 2003.

During the six months ending December 31, 2003, the Corporation incurred operating expenses of \$120,641 compared to \$151,141 for the six months ending December 31, 2002.

These expenses primarily consisted of general and administration costs of \$22,847, amortization of \$14,598, consulting of \$76,250 and travel of \$621.

The Corporation continues to carefully control its expenses, and has limited its debt outstanding as it moves forward with the implementation of its business plan. The Corporation has no employees at the present time and engages personnel through consulting agreements where necessary as well as outside attorneys, accountants and technical consultants. All previous consulting agreements have been terminated and there are no contingent liabilities resulting from this cancellation.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation has to date, financed its development stage by the sale of common stock. At December 31, 2003, the Corporation had 18,722,000 shares of common stock outstanding. During the period ended December 31, 2003, the Corporation did not issue any shares of its Common stock.

On October 1, 2003, the Company entered into a promissory note for monies received in the amount of \$10,000. The note is due and payable on November 1, 2003 at the rate of 12% interest per month with an administrative fee of \$1,400 for a total due of \$11,500.

The Corporation recognizes that it will continue to need additional cash during the next twelve months. There is no assurance that the Corporation will be able to obtain additional capital as required, or obtain the capital on terms and conditions acceptable to it.

The Corporation does not have sufficient cash to finance its operations at this stage of its development and is seeking additional financing on acceptable terms and conditions.

The Corporation has no current plans for research and development nor does the Corporation plan on retaining or hiring any additional employees or consultants. There are no plans by the Corporation to purchase or to sell any fixed assets.

INFLATION

Inflation has not been a factor during the six months ending December 31, 2003. While inflationary forces are moderately higher than in 2002, the actual inflation is immaterial and is not considered a factor in any contemplated capital expenditure program.

PART II – OTHER INFORMATION

Changes in Securities and Use of Proceeds

The Corporation had 18,722,000 shares of common stock issued and outstanding as of December 31, 2003. Of these shares approximately 9,835,000 can only be resold in compliance with Rule 144 limitations, adopted under the Securities Act of 1933 (the "Securities Act").

In General, under Rule 144, a person who has beneficially owned shares privately acquired directly or indirectly from us or from one of our affiliates, for at least one year, or who is an affiliate, is entitled to sell, within any three-month period, a number of shares that do not exceed the greater of 1% of the then outstanding shares or the average weekly trading volume in our shares during the four calendar weeks immediately preceding such sale. Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about us. A person who is not deemed to have been an affiliate at any time during the 90 days preceding the sale, and who has beneficially owned restricted shares for at least two years, is entitled to sell all such shares under Rule 144 without regard to the volume limitations, current public information requirements, manner of sale provisions or notice requirements.

The issuances discussed under this section are exempted from registration under Rule 504 of the Securities Act ("Rule 504") or Section 4 (2) of the Securities Act ("Section 4 (2)"), as provided. All purchasers of the following securities acquired the shares for investment purposes only and all stock certificates reflect the appropriate legends. No underwriters were involved in connection with the sale of securities referred to in this section.

Common Stock

No common stock has been issued during the three-month period ending December 31, 2003.

Options

No options were granted during the three-month period ending December 31, 2003.

Item 6.

Exhibits and Reports on Form 8-K

The following reports on Form 8-K were filed during the quarter ended December 31, 2003:

NONE

99.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

Reward Enterprises, Inc.

(Registrant)

Date: February 9, 2004

/s/ Edward Withrow III

Edward Withrow III Secretary/Treasurer

Chief Executive Officer and a Member

of the Board of Directors

CERTIFICATIONS

I, Edward Withrow III, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Reward Enterprises Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the

registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 9, 2004

/s/ Edward Withrow III

Edward Withrow III, CEO

CERTIFICATIONS

Net loss for the period ended December 31, 2003

I, Joseph Vigliarolo, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Reward Enterprises Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

d) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

e) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

f) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

c) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

d) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 9, 2004

/s/ Joseph Vigliarolo

Joseph Vigliarolo, CFO