

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

ZONE 4 PLAY INC
Form 10QSB
November 15, 2004

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _____ to _____
Commission file number _____

Zone 4 Play, Inc.
(Exact name of small business issuer as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

98-0374121
(IRS Employer
Identification No.)

103 Foulk Road
Wilmington, DE 19803
(Address of principal executive offices)

(302)-691-6177
(Issuer's telephone number)

Not Applicable
(Former name, former address and former fiscal year,
if changed since last report)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of November 12, 2004, the issuer had 20,540,012 outstanding shares of Common Stock.

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

TABLE OF CONTENTS

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

	Page

PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheet	2 - 3
Consolidated Statements of Operations	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 - 9
Item 2. Management's Discussion and Analysis or Plan of Operation	10-13
Item 3. Controls and Procedures	13
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	13
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	13
Item 3. Defaults Upon Senior Securities	13
Item 4. Submission of Matters to a Vote of Security Holders	13
Item 5. Other Information	14
Item 6. Exhibits	14
SIGNATURES	15

1

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ZONE4PLAY INC. AND ITS SUBSIDIARIES
(A development stage company)

CONSOLIDATED BALANCE SHEET

U.S. dollars

	September 30, 2004

Unaudited	

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 651,205
Trade receivables	163,609
Other accounts receivable and prepaid expenses	25,543

Total current assets	840,357

SEVERANCE PAY FUND	56,970

PROPERTY AND EQUIPMENT, NET	85,852

Total assets	\$ 983,179

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

 =====
 The accompanying notes are an integral part of the consolidated financial statements.

2

ZONE4PLAY INC. AND ITS SUBSIDIARIES
 (A development stage company)

CONSOLIDATED BALANCE SHEET

=====

U.S. dollars (except share data)

	September 30, 2004
	----- Unaudited -----
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Short-term bank credit	\$ 9,191
Short-term loans from stockholders and others	1,900
Trade payables	107,957
Employees and payroll accruals	214,894
Accrued expenses and other liabilities	66,735

Total current liabilities	400,677

ACCRUED SEVERANCE PAY	179,236

COMMITMENTS AND CONTINGENT LIABILITIES	
STOCKHOLDERS' EQUITY:	
Common stock of \$ 0.001 par value:	
Authorized: 75,000,000 shares as of September 30, 2004;	
Issued and outstanding: 20,540,012 shares as of	
September 30, 2004	20,540
Additional paid in capital	2,223,282
Deficit accumulated during the development stage	(1,840,556)

Total stockholders' equity	403,266

	\$ 983,179
	=====

The accompanying notes are an integral part of the consolidated financial statements.

3

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

ZONE4PLAY INC. AND ITS SUBSIDIARIES
(A development stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars (except share data)

	Nine months ended September 30,		Three months ended September 30,	
	2004	2003	2004	2003
	Unaudited			
Revenues:				
Software applications	\$ 432,883	\$ 102,940	\$ 140,364	\$ 57,277
One-time sale of software applications to related party	196,000	380,000	--	--
Total revenues	628,883	482,940	140,364	57,277
Cost of revenues	113,296	180,637	13,372	8,154
Gross profit	515,587	302,303	126,992	49,123
Operating expenses:				
Research and development	812,436	342,154	358,915	162,821
Selling and marketing	293,563	81,221	142,012	44,263
General and administrative	277,726	82,074	139,441	16,867
Total operating expenses	1,383,725	505,449	640,368	223,951
Operating loss	868,138	203,146	513,376	174,828
Financial expenses, net	22,066	37,790	11,837	27,355
Net loss	890,204	240,936	525,213	202,183
Basic and diluted net loss per share	\$ 0.049	\$ 0.023	\$ 0.026	\$ 0.019
Weighted average number of shares of Common stock used in computing basic and diluted net loss per share	18,262,350	10,426,190	20,012,050	10,426,190

The accompanying notes are an integral part of the consolidated financial statements.

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

4

ZONE4PLAY INC. AND ITS SUBSIDIARIES
(A development stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars

	Nine months ended September 30,		Three months ended September 30,	
	2004	2003	2004	2003
	----- Unaudited -----			
Cash flows from operating activities:				
Net loss	\$ (890,204)	\$ (240,936)	\$ (525,213)	\$ (202,183)
Adjustments required to reconcile net loss to net cash provided by operating activities:				
Depreciation	32,407	15,958	17,511	5,605
Loss from sale of property and equipment	--	--	--	--
Decrease (increase) in trade and other accounts receivable and prepaid expenses	(131,967)	(49,994)	(58,169)	(26,714)
Increase (decrease) in trade payables	30,410	(13,853)	12,290	33,220
Increase in employees and payroll accruals	53,006	32,209	21,101	(13,199)
Increase in accrued expenses and other liabilities	39,910	2,895	(37,057)	(4,259)
Decrease in advance payments from customers and related parties	(243,500)	--	--	--
Accrued severance pay, net	54,489	21,710	16,894	2,844
Issuance of Common Stock to a service provider	51,914	--	12,000	--
	-----	-----	-----	-----
Net cash provided by operating activities	(1,003,525)	(232,011)	(540,643)	(204,686)
	-----	-----	-----	-----
Cash flows from investing activities:				
Purchase of property and equipment	(62,563)	(19,610)	(11,478)	(12,159)
	-----	-----	-----	-----
Net cash used in investing activities	(62,563)	(19,610)	(11,478)	(12,159)
	-----	-----	-----	-----
Cash flows from financing				

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

activities:				
Issuance of shares in respect of reverse shell acquisition (1)	3,546	--	--	--
Issuance of Common stock	2,173,932	--	976,135	--
Short-term bank credit, net	(27,662)	493	6,136	6,804
Receipt of short-term loans from stockholders and others	50,000	249,936	--	--
Principle payments due to short-term loans from stockholders and others	(532,395)	16,995	(2,097)	16,995
	-----	-----	-----	-----
Net cash provided by financing activities	1,667,421	267,424	967,722	23,799
	-----	-----	-----	-----
Increase (decrease) in cash and cash equivalents	601,323	15,803	415,601	(193,046)
Cash and cash equivalents at the beginning of the period	49,882	816	235,604	209,665
	-----	-----	-----	-----
Cash and cash equivalents at the end of the period	\$ 651,205	\$ 16,619	\$ 651,205	\$ 16,619
	=====	=====	=====	=====

(1) On February 1, 2004, the Company acquired Zone4Play Inc. (Delaware) through a reverse shell purchase acquisition (see Note 1b).

The accompanying notes are an integral part of the consolidated financial statements.

ZONE4PLAY INC. AND ITS SUBSIDIARIES
(A development stage company)

NOTE 1:- GENERAL

a. Zone4Play Inc. ("the Company") was incorporated under the laws of the State of Nevada on April 23, 2002 as Old Goat Enterprises, Inc. On February 1, 2004, the company acquired Zone4Play, Inc. ("Zone4Play (Delaware)"), which was incorporated under the laws of the State of Delaware on April 2, 2001, and subsequently changed the Company name to Zone4Play, Inc., a Nevada corporation. The Company develops and markets interactive games applications for Internet, portable devices and interactive TV platforms.

The Company conducts its operations and business with and through its wholly-owned subsidiaries, Zone4Play Limited, an Israeli corporation incorporated in July 2001, which is engaged in research and development and marketing of the applications, Zone4Play (UK) Limited, a United Kingdom corporation, incorporated in November 2002, which is engaged in marketing of the applications.

The Company's shares are currently traded on the OTC Bulletin Board under the trading symbol "ZFPI.OB."

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

b. Acquisition of Zone4Play (Delaware):

According to the agreement between the Company and Zone4Play (Delaware), the Company issued 10,426,190 Common stock to the former holders of equity interest in Zone4Play (Delaware).

The acquisition has been accounted for as a reverse acquisition, whereby the Company was treated as the acquiree and Zone4Play (Delaware) as the acquirer, primarily because Zone4Play (Delaware) shareholders owned a majority, approximately 58% of the Company's Common stock, upon completion of the acquisition. Immediately prior the consummation of the transaction Zone4play Inc. had no material assets and liabilities, hence the reverse acquisition is treated as a capital stock transaction in which Zone4Play (Delaware) is deemed to have issued the Common stock held by the Company shareholders for the net assets of the Company. The historical financial statements of the Company became the historical financial statements of Zone4Play (Delaware).

6

ZONE4PLAY INC. AND ITS SUBSIDIARIES
(A development stage company)

NOTE 1:- GENERAL (Cont.)

- c. The Company and its subsidiaries are devoting substantially all of their efforts toward conducting research, development and marketing of their software. The Company's and its subsidiaries' activities also include raising capital and recruiting personnel. In the course of such activities, the Company and its subsidiaries have sustained operating losses and expect such losses to continue in the foreseeable future. The Company and its subsidiaries have not generated sufficient revenues and have not achieved profitable operations or positive cash flow from operations. The Company's accumulated deficit aggregated to \$ 1,840,556 as of September 30, 2004. There is no assurance that profitable operations, if ever achieved, could be sustained on a continuing basis.

The Company plans to continue to finance its operations with a combination of stock issuance and private placements and revenues from product sales.

- d. Concentration of risk that may have a significant impact on the Company:

The Company derived most of its revenues from three major customers (see Note 3b).

- e. In April 2004, the Company completed a \$ 1.2 million private placement, consisting of 1,500,000 shares of its Common stock of \$ 0.001 par value and two warrants to purchase one share of Common stock each. One warrant is exercisable for 24 months at a price of \$1.85 per share and one warrant is exercisable for 36 months at a price of \$2.50 per share. The purchase price for each Common stock and two warrants was \$ 0.80. The private placement agreement was signed with a group of institutional and individual investors.
- f. The Company has signed agreements with two non-employee directors.

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

While each such Director serves as a member of the Board, the Company shall pay the Director a director's fee of \$ 7,000 per annum, payable in quarterly installments. Both Directors shall be granted an option under the terms of the Company's option plan, when it will be issued, to purchase 192,261 shares of Common stock of the Company, at an exercise price per share of \$ 1. Each Director's rights to exercise such option shall vest in three equal annual installments during a period of three years commencing on May 2004, provided that the Company's agreement with such Director is not earlier terminated. To date the Company has not adopted a stock option plan and accordingly has not granted these options.

- g. In April 2004, the Company issued 44,348 shares to a service provider, regarding its service agreements. The company had accounted for its shares to the service provider under the fair value method of Statement of Financial Accounting Standard No.123 "Accounting for Stock Based Compensation". The fair value of these shares was estimated using the Company's share price at grant date.

7

ZONE4PLAY INC. AND ITS SUBSIDIARIES
(A development stage company)

NOTE 1:- GENERAL (Cont.)

- h. In June 2004, the Company and NetFun Ltd. ("Netfun") formed a new company named MiXTV Ltd ("MIXTV") in order to pursue the marketing, deployment and support of the MIXTV system. The controlling stake of - 50.1% - is held by the Company. NetFun currently has a 20% share of the new company, which can increase to up to 49.9% as pre-defined two milestones: (a) Upon MIXTV reaching its operational break-even, 10% of the shares will be transferred to Netfun. (b) Upon repayment to the Company all the sums provided to MIXTV, 19.9% of the shares will be transferred to Netfun. A trustee is currently holding the remaining shares. The company will provide capital for one year of operating the new company, whereas NetFun will deliver its Intellectual Properties assets (MiXTV). MIXTV has commenced its operation in July 2004 and generated losses as of September 30, 2004 that had been consolidated in the company's report since July forward.
- i. On May 1, 2004, the Company signed an agreement with the Executive Vice President of the Company, according to the agreement, the Company will grant options to purchase 200,000 shares of its Common stock at a purchase price per share at a 15% discount to the market price of the Company Common stock on May 1, 2004. The options are exercisable for a period of 60 months from the grant date and vest 1/8 every three months beginning July 1, 2004. In addition, if the Company's gross revenues exceed \$ 15 million during the 2005 calendar year, the Company agreed to grant him fully vested options to purchase 180,000 shares of the Company Common stock exercisable for a 60 months from May 1, 2004 at a purchase price per share at a 15% discount to the market price of the Company Common stock. To date, the Company's Board of Directors has not approved this grant, further more the Executive Vice President is entitled to sales commissions equal to 5% of aggregate total net revenues from institutional gaming operators.

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

- j. On August 17, 2004, the Company issued 22,222 shares to a service provider, regarding its service agreements. The company had accounted for its shares to the service provider under the fair value method of Statement of Financial Accounting Standard No.123 "Accounting for Stock Based Compensation". The fair value of these shares was estimated using the Company's share price at grant date.
- k. On August 17, 2004, the Company completed a \$1 million private placement consisting of 1,000,000 shares of its Common stock of \$ 0.001 par value and two warrants to purchase one share of Common stock each. One warrant is exercisable for 24 months at a price of \$2.00 per share and one warrant is exercisable for 36 months at a price of \$2.50 per share. The purchase price for each Common stock and two warrants was \$ 1.

NOTE 2:- BASIS OF PRESENTATION

The accompanying interim consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States and the rules and regulations of the Securities and Exchange Commission, and include the accounts of the Company and its subsidiaries. Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company, the unaudited financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial position at September 30, 2004 and the operating results and cash flows for the nine months ended September 30, 2004 and 2003.

The results of operations for the nine months ended September 30, 2004 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending December 31, 2004.

8

ZONE4PLAY INC. AND ITS SUBSIDIARIES
(A development stage company)

NOTE 3:- SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION

Summary information about geographic areas:

The Company manages its business on the basis of one reportable segment (see Note 1 for a brief description of the Company's business) and follows the requirements of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information".

- a. The following is a summary of operations within geographic areas, based on the location of the customers:

Period ended September 30,	
2004	2003
Total revenues	

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

United Kingdom	\$	475,693	\$	86,452
USA		125,257		--
Israel		19,236		6,536
Cyprus		--		380,000
Holland		7,913		8,657
Others		784		1,295
		-----		-----
	\$	628,883	\$	482,940
		=====		=====

b. Major customer data as a percentage of total revenues:

	2004		2003	
	-----		-----	
Customer A	34%		15%	
	=====		=====	
Customer B (related party)	31%		--	
	=====		=====	
Customer C	13%		--	
	=====		=====	
Customer D (related party)	--		79%	
	=====		=====	

NOTE 4:- SIGNIFICANT EVENTS DURING THE PERIOD

During 2002 the Company signed an agreement with a related party to provide software application in the amount of \$ 296,500. Due to a dispute that had been settled in 2004 the company had provided the software application for the amount of \$ 196,000 and recognized revenues accordingly.

- - - - -

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

Forward Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms, or other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those in the forward-looking statements as a result of various important factors. Although we believe that the expectations reflected in the forward-looking statements are reasonable, such should not be regarded as a representation by Zone 4 Play, Inc., or any other person, that such forward-looking statements will be achieved. The business and operations of Zone 4 Play, Inc. are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this report.

Overview

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

Our financial statements are stated in United States Dollars (US\$) and are prepared in accordance with United States Generally Accepted Accounting Principles.

You should read the following discussion of our financial condition and results of operations together with the unaudited financial statements and the notes to unaudited financial statements included elsewhere in this filing prepared in accordance with accounting principles generally accepted in the United States. This discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those anticipated in these forward-looking statements.

Company History

Zone4Play, Inc. (hereinafter referred to as "Zone4Play", "the Company", "us" or "we") is a corporation duly organized under the laws of the State of Nevada on April 23, 2002, as Old Goat Enterprises, Inc. ("Old Goat"). On February 1, 2004, we acquired Zone4Play, Inc., a Delaware corporation ("Zone4Play Delaware"), through a reverse purchase acquisition. The acquisition has been accounted for as a reverse acquisition, whereby Old Goat was treated as the acquiree and Zone4play Delaware as the acquiror. The historical financial statements of Zone4play Delaware became our historical financial statements, and the assets and liabilities of Old Goat are accounted for as required under the purchase method of accounting. The results of operations of Old Goat are included in the financial statements from February 1, 2004, the effective date of the acquisition. We conduct our operations and business with and through Zone4Play Delaware's wholly owned subsidiaries, Zone4Play Limited, an Israeli Corporation incorporated in July 2001, and Zone4Play (UK) Limited, a United Kingdom corporation incorporated in November 2002. Our shares of common stock are currently traded on the OTC Bulletin Board under the trading symbol "ZFPI."

Our Business

We develop interactive games technology that provides an end-to-end solution for multiple platforms that allows service providers to deliver games to their subscribers. Our customers include cable and satellite television service providers, wireless operators, Internet services providers and hospitality service providers. Among our customers are AVAGO TV (Sky UK), NTL (UK), Telewest (UK), Cablevision (US), Lodgenet (US), and RCN (US).

Our technology allows service providers to generate additional revenue from their existing infrastructure and subscriber base by launching additional services quickly. Our technology allows a subscriber to switch from one platform to another using a single account with the same virtual account balance and user information. To our knowledge, our technology is unique in its ability to utilize a single account to play a game on different platforms, such as interactive TV, wireless or Internet. With this capability, our technology increases the variety of services that our customers can offer, which can help reduce subscriber turnover.

10

Our customers typically enter into revenue-share agreements with us under which they use our technology to offer games to their subscribers and pay us a percentage of the revenues or income generated from those games.

We devote substantially all of our efforts toward conducting research, development and marketing of our software. In the course of these activities, we

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

have sustained operating losses and expect such losses to continue in the foreseeable future. To date, we have not generated sufficient revenues to achieve profitable operations or positive cash flow from operations. On September 30, 2004, we had an accumulated deficit of \$1,840,556. There is no assurance that profitable operations, if ever achieved, will be sustained on a continuing basis. During the nine months ended September 30, 2004, we derived 78% of our revenues from three major customers.

Results of Operations - Three and Nine Months Ended September 30, 2004 Compared

to Three and Nine Months Ended September 30, 2004

Revenues and Cost of Revenues

Total revenues for the nine months ended September 30, 2004 increased by 30% to \$628,883 from \$482,940 for the nine months ended September 30, 2003. Total revenues for the three months ended September 30, 2004 increased by 145% to \$140,364 from \$57,277 for the three months ended September 30, 2003. Revenues from sales of software applications for the nine months ended September 30, 2004 increased by 321% to \$432,883 from \$102,940 for the nine months ended September 30, 2003. Revenues from sales of software applications for the three months ended September 30, 2004 increased by 145% to \$140,364 from \$57,277 for the three months ended September 30, 2003. Revenues from one-time sales of software applications to related parties decreased by 48% to \$196,000 in the nine months ended September 30, 2004 compared to \$380,000 in the same period in 2003. For the three months ended September 30, 2004 and 2003, revenues from one-time sales of software applications to related parties were \$0. The increase in revenues from software applications was due to new contracts, mainly in the United Kingdom. Also, in 2004, we had revenues from United States customers, such as Cablevision, Lodgenet, and RCN, which we did not have in 2003. The revenues from one time sale of software applications to related parties in 2004 are from the delivery of software to related parties from order that were placed during 2002. Going forward, we expect that revenues from sale of software applications to related parties will be nominal.

Cost of revenues for the nine months ended September 30, 2004 decreased by 37% to \$113,296 from \$180,637 for the nine months ended September 30, 2003. Cost of revenues for the three months ended September 30, 2004 increased by 64% to \$13,372 from \$8,154 for the three months ended September 30, 2003. Gross profit increased by 71% for the nine months ended September 30, 2004 to \$515,587 from \$302,303 for the same period in 2003. For the three months ended September 30, 2004, gross profit increased by 159% to \$126,992 when compared to gross profit of \$49,123 for the three months ended September 30, 2003. The decrease in cost of revenues for the nine months ended September 30, 2004 is mostly attributable to a one-time software application agreement, which included customization of the software, which required allocation of employees of our R&D department. As a result, some R&D expenses were allocated to cost of sales. The increased cost of revenues for the three months ended September 30, 2004 is a result of hosting expenses allocation.

Research and Development

Research and development expenses for the nine months ended September 30, 2004 increased by 137% to \$812,436 from \$342,154 for the nine months ended September 30, 2003. Research and development expenses for the three months ended September 30, 2004 increased 120% to \$358,915 from \$162,821 for the three months ended September 30, 2003. The increase in research and development expenses is primarily attributable to an increase in employee recruiting during 2003 and 2004, an increase in salary expenses and expenses allocated to sale of software due to the fact that in the 2nd quarter of 2004, there were no sales of software applications, no expenses allocated to the cost of sales, and the research and

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

development costs increased.

Sales and Marketing

Sales and marketing expenses for the nine months ended September 30, 2004 increased by 261% to \$293,563 from \$81,221 for the nine months ended September 30, 2003. Sales and marketing expenses for the three

11

months ended September 30, 2004 increased by 221% to \$142,012 from \$44,263 for the three months ended September 30, 2003. The increase in sales and marketing expenses during 2004 are a result of increased marketing efforts, mainly in the United Kingdom and the United States, using our Israeli marketing team. Sales and marketing expenses consist mainly of labor costs, trade shows and travel expenses to the United Kingdom and to the United States.

General and Administrative

General and administrative expenses for the nine months ended September 30, 2004 increased by 238% to \$277,726 from \$82,074 for the nine months ended September 30, 2003. General and administrative expenses for the three months ended September 30, 2004 increased by 727% to \$139,441 from \$16,867 for the three months ended September 30, 2003. The increase in general and administrative expenses is primarily attributable to the recruitment of employees, additional legal and audit expenses associated with being a reporting company with the U.S. Securities and Exchange Commission and investor relations expenses.

Net Loss and Net Loss Per Share

For the three and nine months ended September 30, 2004, we incurred a net loss of \$525,213 (\$0.026 per share) and \$890,204 (\$0.049 per share), respectively. This compares with a net loss for the three and nine months ended September 30, 2003 of \$202,183 (\$0.019 per share) and \$240,936 (\$0.023 per share), respectively. The increased net loss is primarily attributable to increased operating expenses and due to the fact that the weighted average number of shares of common stock outstanding at September 30, 2003 were only 10,426,190 shares, versus 18,262,350 at September 30, 2004.

Liquidity and Capital Resources

As of September 30, 2004, total current assets were \$840,357 and total current liabilities were \$400,677. At September 30, 2004, we had a working capital surplus of \$439,680 and an accumulated deficit of \$1,840,556. We finance our operations with a combination of stock issuances and revenues from product sales.

In April 2004, we completed a \$1.2 million private placement, consisting of units offered at a price of \$0.80 per unit, with each unit comprised of one share of common stock and two common stock purchase warrants. One warrant is exercisable for 24 months at a price of \$1.85 per share and one warrant is exercisable for 36 months at a price of \$2.50 per share. The private placement agreement was signed with a group of institutional and accredited investors.

On August 17, 2004, we completed a \$1 million private placement of common stock and warrants. The private placement consisted of units offered at a price of \$1.00 per unit, with each unit comprised of one share of common stock and two common stock purchase warrants. One warrant is exercisable for 24 months at a price of \$2.00 per share and one warrant is exercisable for 36 months at a price

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

of \$2.50 per share.

Our management believes that we have sufficient funds to operate for the next 12 months, with additional funds anticipated from the performance of agreements that we have entered with our current customers, and from future contracts that we expect to execute in the near future. Nonetheless, we intend to raise additional funds in order to broaden our financial strength and liquidity.

Outlook

We believe that our future success will depend upon our ability to enhance our existing products and solutions and introduce new commercially viable products and solutions addressing the demands of the evolving markets. As part of the product development process, we work closely with current and potential customers, distribution channels and leaders in our industry segments to identify market needs and define appropriate product specifications. Our current anticipated levels of revenue and cash flow are subject to many uncertainties and cannot be assured. In order to have sufficient cash to meet our anticipated requirements for the next twelve months, we may be dependent upon our ability to obtain additional financing. The inability to generate sufficient cash from operations or to obtain the required additional funds could require us to curtail operations.

12

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

Item 3. Controls and Procedures.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. There was no significant change in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are not currently a party to, nor is any of our property currently the subject of, any pending legal proceeding. None of our directors, officers or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

On August 2004, we issued 22,222 shares of common stock to PortfolioPR Inc., a New York corporation, pursuant to a consulting contract.

On August 17, 2004, we sold 1,000,000 units of common stock and common stock purchase warrants at a purchase price of \$1.00 per unit, for an aggregate of \$1,000,000. Each unit consists of one share of common stock and two common stock purchase warrants. One warrant is exercisable for 24 months at a price of \$2.00 per share and one warrant is exercisable for 36 months at a price of \$2.50 per share.

All of the above issuances and sales were deemed to be exempt under Regulation S, Regulation D and/or Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, business associates of ours or our executive officers, and transfer was restricted by us in accordance with the requirements of the Securities Act of 1933. For issuances and sales that were exempt from registration under Regulation S, the shares were purchase in an "offshore transaction" as defined in, and pursuant to, Regulation S on the basis that the purchaser was not offered the shares in the United States and did not execute or deliver any agreement in the United States.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of security holders during the period covered by this report.

13

Item 5. Other Informtion.

None.

Item 6. Exhibits.

References to "the Company" in the following exhibit list mean Zone 4 Play, Inc., a Nevada corporation.

Exhibit Number	Description
2.1	Stock Purchase Agreement dated December 1, 2003 between Zone4play, Inc. and Old Goat Enterprises, Inc. (incorporated by reference to Form 8-K/A filed on April 5, 2004.
3.1	Articles of Incorporation (incorporated by reference to Form SB-2 (File No. 333-91356) filed on June 27, 2002)
3.2	Certificate of Amendment to Articles of Incorporation (incorporated by reference to Form 8-K filed on February 6, 2004)
3.3	Bylaws (incorporated by reference to Form SB-2 (File No. 333-91356) filed on June 27, 2002)
10.1	Director Appointment Agreement of Oded Zucker dated January 1, 2004 (incorporated by reference to Form 10-QSB filed on August 16, 2004)

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

- 10.2 Director Appointment Agreement of Shlomo Rothman dated January 1, 2004 (incorporated by reference to Form 10-QSB filed on August 16, 2004)
- 10.3 Employment Agreement with Uri Levy dated January 1, 2004 (incorporated by reference to Form SB-2 (File No. 333-120174) filed on November 3, 2004)
- 10.4 Employment Agreement with Haim Tabak dated April 1, 2004 (incorporated by reference to Form SB-2 (File No. 333-120174) filed on November 3, 2004)
- 10.5 Employment Agreement with Shachar Schalka dated April 1, 2004 (incorporated by reference to Form SB-2 (File No. 333-120174) filed on November 3, 2004)
- 10.6 Employment Agreement with Gil Levi dated April 1, 2004 (incorporated by reference to Form SB-2 (File No. 333-120174) filed on November 3, 2004)
- 10.7 Employment Agreement with Idan Miller dated May 1, 2004 (incorporated by reference to Form SB-2 (File No. 333-120174) filed on November 3, 2004)
- 10.9 Joint Venture Agreement, dated June 1, 2004, by and between Zone4Play and Netfun, Ltd. (incorporated by reference to Form 10-QSB filed on August 16, 2004)
- 31.1 Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act, promulgated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act, promulgated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Chief Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, promulgated pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, promulgated pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

14

SIGNATURES

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

ZONE 4 PLAY, INC.

Dated: November 15, 2004 By: /s/ Shimon Citron

Edgar Filing: ZONE 4 PLAY INC - Form 10QSB

Shimon Citron
President and Chief Executive Officer

Dated: November 15, 2004

By: /s/ Uri Levy

Uri Levy
Chief Financial Officer