

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

ZONE 4 PLAY INC
Form SB-2/A
April 22, 2005

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 22, 2005
REGISTRATION NO. 333-122727

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

AMENDMENT NO. 2 TO FORM SB-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

ZONE 4 PLAY, INC.
(Name of small business issuer in its charter)

NEVADA (State or jurisdiction of incorporation or organization)	5812 (Primary Standard Industrial Classification Code Number)	98-0374121 (I.R.S. Employer Identification No.)
--	---	---

103 Foulk Road
Wilmington, DE 19803
(302) 691-6177
(Address and telephone number of principal executive offices)

103 Foulk Road
Wilmington, DE 19803
(Address of principal place of business or
intended principal place of business)

Shimon Citron, Chief Executive Officer
Zone 4 Play, Inc.
103 Foulk Road
Wilmington, DE 19803
(302) 691-6177
(Name, address and telephone number of agent for service)

COPIES TO:

Edwin L. Miller, Jr., Esq.
Howard E. Berkenblit, Esq.
Zysman, Aharoni, Gayer & Co./Sullivan & Worcester LLP
One Post Office Square
Boston, MA 02109
Tel: 617-338-2800
Fax: 617-338-2880

APPROXIMATE DATE OF PROPOSED SALE TO PUBLIC:

From time to time after this registration statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a) may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS, SUBJECT TO COMPLETION, DATED APRIL 22, 2005

Zone 4 Play, Inc.
Up to 2,788,198 Shares of Common Stock

This prospectus relates to the public offering of an aggregate of up to 2,788,198 shares of common stock which may be sold from time to time by the selling stockholders of Zone 4 Play, Inc. named in this prospectus. Of these shares, 78,200 shares of common stock are issuable upon exercise of warrants held by the selling stockholders.

The shares of common stock are being registered to permit the selling stockholders to sell the shares from time to time in the public market. The stockholders may sell the shares through ordinary brokerage transactions, directly to market makers of our shares or through any other means described in the section entitled "Plan of Distribution" beginning on page 11. We cannot assure you that the selling stockholders will sell all or any portion of the shares offered in this prospectus.

We have paid the expenses of preparing this prospectus and the related registration expenses.

Our common stock is traded on the Over-The-Counter Bulletin Board under the symbol "ZFPI.OB". The last reported sales price for our common stock on April 19, 2005, was \$1.59 per share.

The Securities offered hereby involve a high degree of risk.
See "Risk Factors" beginning on page 2.

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

No underwriter or person has been engaged by us to facilitate the sale of shares of common stock in this offering.

We may amend or supplement this prospectus from time to time by filing amendments or supplements as required. You should read the entire prospectus and any amendments or supplements carefully before you make your investment decision.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

TABLE OF CONTENTS

Prospectus Summary
Risk Factors
Forward Looking Statements
Use of Proceeds
Selling Stockholders
Plan of Distribution
Market for Common Equity and Related Stockholder Matters
Management's Discussion and Analysis of Financial Condition and Results of Operations
Business
Description of Property
Legal Proceedings
Management
Executive Compensation
Certain Relationships and Related Transactions
Security Ownership of Certain Beneficial Owners and Management
Description of Securities
Indemnification for Securities Act Liabilities
Legal Matters
Experts
Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
Additional Information
Index to Consolidated Financial Statements

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in the securities. Before making an investment decision, you should read the entire prospectus carefully, including the "RISK FACTORS" section, the financial statements and the notes to the financial statements. As used throughout this prospectus, the terms "Zone4Play," "we," "us," and "our" refer to Zone 4 Play, Inc. and its subsidiaries.

Zone 4 Play, Inc.

Zone4Play develops interactive games technology that provides an end-to-end solution for multiple platforms that allows service providers to deliver games to their subscribers. Our software offers a single user's account that enables switching from one platform to another (e.g., from wireless to interactive digital TV and vice versa) with the same user information. We have an R&D center in Israel and marketing and support operations in the United Kingdom. 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), RCN (US), The Poker Channel (UK) and Eurobet (UK).

For the years ended December 31, 2004, 2003, 2002 and for the period from April 2001 (date of inception) until December 31, 2001, we incurred net losses of \$1,920,877, \$442,412, \$487,716 and \$6,638, respectively. At December 31, 2004, we had a working capital deficit of \$385,993 and an accumulated deficit of \$2,957,668.

Our principal executive offices are located at 103 Foulk Road, Wilmington, DE 19803 and our telephone number is (302) 691-6177.

The Offering

Common stock outstanding before the offering.....	23,250,010 shares.
Common stock offered by selling stockholders.....	Up to 2,788,198 shares. This number includes 78,200 shares of common stock issuable upon exercise of outstanding warrants by the selling stockholders.
Common stock to be outstanding after the offering...	Up to 23,328,210 shares.
Use of proceeds.....	We will not receive any proceeds from the sale of the common stock hereunder. We will receive proceeds from any exercise of outstanding warrants. See "Use of Proceeds" for a complete description.
OTCBB Symbol.....	ZFPI.OB

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

Our business involves a high degree of risk. Potential investors should carefully consider the risks and uncertainties described below and the other information in this prospectus before deciding whether to invest in shares of our common stock. If any of the following risks actually occur, our business, financial condition, and results of operations could be materially and adversely affected. This could cause the trading price of our common stock to decline, with the loss of part or all of an investment in our common stock.

RISKS RELATED TO OUR BUSINESS

Our brief operating history makes our future success uncertain.

We have a brief operating history. In 2001 we began our business of developing, commercializing and marketing games software and technologies. We are continuing to develop our business, enhance and extend our product suite and build our organization. Our brief operating history makes our success uncertain. As a result of our brief operating history, it is difficult to accurately forecast our revenues, and we have limited meaningful historical financial data upon which to base planned operating expenses and new business revenue.

We have incurred losses since our inception, and there is no assurance that profitable operations, if achieved, can be sustained.

We have not yet realized a profit, and we do not expect to be profitable in the near future. We cannot assure you that we will ever achieve profitability. At December 31, 2004, we had an accumulated deficit of \$2,957,668. We expect to incur substantial costs that may not be offset by increased revenues. These costs include the following: continued brand development, marketing and other promotional activities; continued product development, upgrading and maintenance of our software; increased administrative costs related to infrastructure and business support systems, the expansion of our product offerings and the continued enhancements to our technologies; and development of strategic business relationships.

Even if we achieve a substantial increase in operating revenues, our operating results are likely to be difficult to predict and are likely to fluctuate substantially.

Our operating results are likely to fluctuate significantly due to a variety of factors, many of which are outside of our control. Factors that may harm our business or cause our operating results to fluctuate include the following:

- o the ability of customers to obtain players and grow their games business;
- o the mix of games and other products developed by us;
- o our inability to obtain new customers and strategic partners;
- o our inability to adequately maintain, upgrade and develop our technologies;
- o technical difficulties with respect to the use of our software;
- o the ability of our competitors to offer new or enhanced games technologies, services or products;
- o price competition;
- o adverse regulatory developments in the business of games for pay;
- o our inability to license additional games from third parties; and
- o the amount and timing of operating costs and capital expenditures relating to commercializing our technologies.

Lack of continued acceptance of our products will affect our business.

Poor market acceptance of our products or other unanticipated events may

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

result in lower revenues than anticipated, making anticipated expenditures on development, advertising and promotion not feasible. Initially, our success may be limited by our limited experience marketing games technologies, our limited international marketing experience and our lack of brand recognition. We cannot assure you that our technologies will continue to gain acceptance in the marketplace or that we will earn sufficient revenues from licensing our products to earn any profits.

- 2 -

We have financed our operations primarily through the sale of equity securities and may be unable to continue to do so.

Since inception through December 31, 2004, we have incurred a cumulative deficit of \$2,957,668 and have raised net proceeds from the sale of equity securities of approximately \$2,173,932. We may need to continue to finance our operations with the sale of equity securities. If we do so, our shareholders will experience dilution to their percentage interest in the Company, which may be substantial, and the new equity securities may have rights, preferences or privileges senior to those of existing holders of our shares of common stock. If we unable to obtain future financing, we may have to substantially curtail or cease operations or find a merger partner on terms which, if available at all, may be unfavorable.

We derive a significant portion of our revenues from three customers, and a significant portion of our 2004 revenues were derived from one-time transactions.

As of December 31, 2004, we derived approximately 75% of our revenues from three major customers: The Games Channel Limited (38%); Winner.com (UK) Ltd. (26%); and RCN Telecom Services of Illinois LLC (11%). Our chief executive officer, Shimon Citron, owns 60% of Winner.com (UK) Ltd., of which half of the shares are being held as a trustee for other shareholders. Our revenues from Winner.com (UK) Ltd. and RCN in that period were mostly derived from one-time transactions (sale of software and a one-time license fee).

Our revenue model is dependent upon the revenues of our customers. If our technology and games are not widely accepted by our customers' subscribers, our financial condition and results of operations will be materially and adversely affected.

We typically enter into agreements with our customers under which, they offer our applications to subscribers and we receive a percentage of our customers' related revenues. The subscribers are charged a one-time, monthly or per-use subscription fee for the application. Our customers retain a percentage of the fee and remit the balance to us. If our technology and games are not widely accepted by our customers' subscribers, our financial condition and results of operations will be materially adversely affected.

Because some of our financial assets and liabilities are denominated in non-dollar currencies such as the British Pound Sterling, and because our financial results are measured in dollars, our results of operations could be harmed as a result of fluctuations in the value of the dollar compared to these other currencies.

Approximately 53% of our revenues in 2004 were generated in currencies other than the dollar, such as the British Pound Sterling. As a result, some of our financial assets are denominated in these currencies, and fluctuations in these currencies could adversely affect our financial results. In addition, we incur and expect to continue to incur additional expenses in non-dollar

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

currencies. Therefore, some of our financial liabilities are denominated in these non-dollar currencies. As a result, the aggregate translation adjustments for the 2004 fiscal year were reported as a component of accumulated other comprehensive income (losses) in shareholders equity.

Due to the fact that our financial results are measured in dollars, our results could be harmed as a result of strengthening or weakening of the dollar compared to these other currencies. Our results could also be adversely affected if we are unable to guard against currency fluctuations in the future. Accordingly, we may (or may not) enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rate of the dollar against the British Pound Sterling or other currencies. These measures, however, may not adequately protect us from future currency fluctuations.

Rapid technological changes may adversely affect our future revenues and profitability.

The software industry is subject to rapid technological change. We need to anticipate the emergence of new hardware and software technologies, assess their market acceptance, and make substantial development and related investments. New technologies in software programming or operations could render our technology obsolete or unattractive to our customers, thereby limiting our ability to recover development costs and potentially adversely affecting our future revenues and profitability. Because a feature of our technology is its ability to operate across

- 3 -

platforms, we must continuously monitor the development of new platforms and changes in existing platform technologies in order to keep our software from becoming obsolete.

We may not be able to compete successfully against current and future competitors.

The interactive games industry is new, rapidly evolving and intensely competitive. The competition among developers of games software is increasing rapidly. Currently, we compete with a number of competitors, many of which have similar product offerings. Many of our competitors have substantially greater financial, marketing and other resources than us and offer a broader range of services than us. Some of our competitors have longer operating histories and have established customer relationships. The possibility of the very largest software providers entering into new markets is always a competitive threat in the software industry. Many of these software providers are known for their aggressive marketing tactics.

Our competitors may be able to develop technologies more effectively or may be able to license their technologies on more favorable terms given their larger customer base. Competitors may also adopt more aggressive pricing or licensing policies than us, which may hinder our ability to penetrate the market and license our technologies.

In addition, increased competition is likely to result in price reductions, reduced gross margins and an increased number of competitors competing for market share, any of which could seriously harm our ability to generate revenues and our results of operations. We expect competition to intensify in the future because current and new competitors can enter our market with little difficulty, and our competitors may sell their software at reduced prices.

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

We are partially dependent on games licensed from other developers and the proper functioning of those games.

Because some of our offerings incorporate software developed and maintained by third parties, we are also dependent to a certain extent upon the proper functioning of those products and on third parties' abilities to enhance their current products, and to develop new products on a timely and cost-effective basis.

Our products will become obsolete if we do not upgrade and improve our products and develop new technologies.

The success of our products and our ability to sublicense our technologies and to develop a competitive advantage in the market will depend on our ability to improve our products and develop new and innovative technologies. Our operations will be at risk if our products are not continually upgraded and improved. The high technology industry is characterized by a consistent flow of new product and service offerings, which may render existing products and services obsolete.

Our success depends on our ability to prevent others from infringing on our technologies.

Our success is heavily dependent upon proprietary technology. To protect our proprietary technology, we rely principally upon copyright and trade secret protection. There can be no assurance that the steps taken by us in this regard will be adequate to prevent misappropriation or independent third-party development of our technology. Further, the laws of certain countries in which we intend to license our technologies or products may be inadequate to protect us. We do not include in our software any mechanism to prevent or inhibit unauthorized use, but we generally require the execution of an agreement that restricts unauthorized copying and use of our products. If unauthorized copying or misuse of our products were to occur, our business and results of operations could be materially adversely affected.

While the disclosure and use of our proprietary technology, know-how and trade secrets are generally controlled under agreements with the parties involved, we cannot assure you that all confidentiality agreements will be honored, that others will not independently develop similar or superior technology, that disputes will not arise concerning the ownership of intellectual property, or that dissemination of our proprietary technology, know-how and trade secrets will not occur.

- 4 -

Intellectual property claims against us can be costly and could impair our business.

We believe that our products and technology do not infringe patents or other proprietary rights of third parties. There can be no assurance, however, that third parties will not claim that our current or future products infringe such rights of third parties. We expect that software developers will increasingly be subject to such claims as the number of products and competitors providing games software and services grow and overlap occurs. Any such claim, with or without merit, could result in costly litigation or require us to enter into royalty or licensing agreements in order to obtain a license to continue to develop and market the affected products. There can be no assurance that we would prevail in any such action or that any license (including licenses proposed by third parties) would be made available on commercially acceptable

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

terms, if at all. If we become involved in litigation over proprietary rights, it could consume a substantial portion of our managerial and financial resources, which could have a material adverse effect on our business and financial condition.

Our ability to license our technology will be adversely affected if our technology's security measures fail.

Our technologies incorporate security and authentication protections designed to allow licensees to protect certain personal information of players, such as credit card numbers, player information and player account balances. We cannot predict whether events or developments will result in a compromise or breach of the technology we use to protect a player's personal information. If the security measures in our software fail, licensees may lose many customers and our ability to license our technologies will be adversely affected.

Furthermore, the servers and computer systems of licensees may be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could disrupt their operations and their ability to pay us licensing fees. Any material failure of such systems may have a material affect on our business. We may need to expend significant additional capital and other resources to protect against a security breach or to alleviate problems caused by any breaches. We cannot assure you that we can prevent all security breaches.

Errors or defects in our software products could diminish demand for our products, injure our reputation and reduce our operating results.

Our software products are complex and may contain errors that could be detected at any point in the life of the product. We cannot assure you that errors will not be found in new products or releases after shipment. This could result in diminished demand for our products, delays in market acceptance and sales, diversion of development resources, injury to our reputation or increased service and warranty costs. If any of these were to occur, our operating results could be adversely affected.

We may need to change the manner in which we intend to conduct a portion of our business if government regulation increases.

A portion of our business involves the licensing of software used to conduct games for pay, or gambling, over the Internet. We do not, however, operate any casinos or otherwise directly engage in this business. The regulation of the gambling industry is complex, intensive and constantly changing. The adoption or modification of laws or regulations relating to Internet gambling could adversely affect the manner in which we currently conduct this portion of our business. Many countries are currently struggling with issues surrounding Internet gambling. More specifically, they are considering the merits, limitations and enforceability of prohibition, regulation or taxation of wagering and games transactions that are transacted over the Internet. There are significant differences of opinion and law. In addition, the growth and development of the market for online commerce may lead to more stringent consumer protection laws that may impose additional burdens on us. Laws and regulations directly applicable to games, communications or commerce over the Internet are becoming more prevalent.

The law of the Internet, however, remains largely unsettled, even in areas where there has been some legislative action. It may take years to determine whether and how existing laws such as those governing intellectual property, privacy, libel and taxation apply to the Internet. In order to comply with new or existing laws regulating online commerce, we may need to modify the manner in which we do business, which may result in additional expenses. We may need to hire additional personnel to monitor our compliance with applicable laws.

- 5 -

We are not aware of any regulations or laws that prohibit the development and the licensing of Internet games software that may potentially be used in violation of applicable statutes. It is possible that our planned activities, even though we do not intend to operate Internet casinos or otherwise directly engage in the gambling business, may be alleged to violate an applicable statute based on an interpretation of the statute or based on a future change of law or interpretation or enforcement policy. Such allegations could result in either civil or criminal proceedings brought by governmental or private litigants. As a result of such proceedings, we could incur substantial litigation expense, fines, diversion of the attention of key employees, and injunctions or other prohibitions preventing us from engaging in various anticipated business activities. Such an outcome would have a material adverse effect on our business and our results of operations.

Because we intend to operate in multiple international markets, we are subject to additional risks.

We currently sell our software products in a number of countries and we intend to enter additional geographic markets. Our business is subject to risks, which often characterize international markets, including:

- o potentially weak protection of intellectual property rights;
- o economic and political instability;
- o import or export licensing requirements;
- o trade restrictions;
- o difficulties in collecting accounts receivable;
- o longer payment cycles;
- o unexpected changes in regulatory requirements and tariffs;
- o seasonal reductions in business activities in some parts of the world, such as during the summer months in Europe;
- o fluctuations in exchange rates; and
- o potentially adverse tax consequences.

If we are not able to manage growth of our business, our financial condition and results of operations will be negatively affected.

We believe that rapid growth and expansion could cause significant strains on our managerial, operational, financial and other resources. Any failure to manage the anticipated growth and expansion of our business could have a material adverse effect on our financial condition.

The loss of our key management personnel may adversely affect our business.

We depend on a relatively small number of key employees, including Shimon Citron, our Chief Executive Officer, Gil Levy, our Vice President of Research and Development, and Shachar Schalka, our Chief Technology Officer, the loss of any of whom could have an adverse affect on the financial performance of our business. Even though we have employment agreements with certain of these individuals, we cannot assure you that they will continue their service with the Company. We currently do not maintain key-man life insurance on any of our managers.

If we are unable to hire and retain skilled personnel, our business and financial results will be negatively affected.

Our success depends to a significant extent on our ability to identify, hire and retain skilled personnel. The software industry is characterized by a

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

high level of employee mobility and aggressive recruiting among competitors for personnel with technical, marketing, sales, product development and management skills. We may not be able to attract and retain skilled personnel or may incur significant costs in order to do so. If we are unable to attract additional qualified employees or retain the services of key personnel, our business and financial results could be negatively impacted.

- 6 -

Our officers, directors and founding shareholders control a significant portion of our outstanding common stock. Accordingly, our outside shareholders may not collectively own enough shares to significantly influence matters that are voted upon by our shareholders, including the election of directors.

Our officers, directors and founding shareholders own approximately 29% of our issued and outstanding stock. We do not have cumulative voting in the election of directors. Thus, purchasers of our common stock may not be able to affect the election of any directors to our Board of Directors.

RISKS RELATED TO OUR COMMON STOCK

The limited market for our shares will make our stock price more volatile. Therefore, you may have difficulty selling your shares.

The market for our common stock is limited and we cannot assure you that a larger market will ever be developed or maintained. Currently, our common stock is traded on the Over-The-Counter Bulletin Board. Securities traded on the OTC Bulletin Board typically have low trading volumes. Market fluctuations and volatility, as well as general economic, market and political conditions, could reduce our market price. As a result, this may make it difficult or impossible for our shareholders to sell our common stock. In addition, unlike NASDAQ and the various international stock exchanges, there are few corporate governance requirements imposed on OTC Bulletin Board-traded companies.

There are no lock-up or other restrictions on the sale of our outstanding common stock. Sales by existing shareholders may depress our share price and may impair our ability to raise additional capital through the sale of equity securities when needed.

We presently have 23,250,010 shares of common stock and no shares of preferred stock issued and outstanding. Since we did not conduct a conventional initial public offering, there are no contractual lock-up restrictions on the sale of our outstanding common stock. Virtually all of our outstanding common stock will be freely tradable pursuant to resale registration statements or pursuant to Rule 144 under the Securities Act. The possibility that substantial amounts of outstanding common stock may be sold in the public market ("market overhang") may adversely affect prevailing market prices, if any shall then exist, for our common stock. This could negatively affect the market price of our common stock and could impair our ability to raise additional capital through the sale of equity securities.

Our common stock is subject to the "penny stock" rules of the SEC, and the trading market in our common stock is limited. This makes transactions in our common stock cumbersome and may reduce the value of your shares.

The Securities and Exchange Commission has adopted Rule 3a51-1 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, Rule

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

15g-9 requires:

- o that a broker or dealer approve a person's account for transactions in penny stocks; and
- o the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- o obtain financial information and investment experience objectives of the person; and
- o make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Securities and Exchange Commission relating to the penny stock market, which, in highlight form:

- 7 -

- o sets forth the basis on which the broker or dealer made the suitability determination; and
- o that the broker or dealer received a signed, written statement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in its market value.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

RISKS RELATED TO OUR LOCATION IN ISRAEL

Potential political, economic and military instability in Israel may adversely affect our results of operations.

Our principal offices and operations are located in Israel. Accordingly, political, economic and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since October 2000, there has been an increase in hostilities between Israel and the Palestinians, which has adversely affected the peace process and has negatively influenced Israel's relationship with its Arab citizens and several Arab countries. Such ongoing hostilities may hinder Israel's international trade relations and may limit the geographic markets, where we can sell our products. Furthermore, the United States Department of State has issued advisories regarding travel to Israel, impeding the ability of travelers to attain travel insurance. Any hostilities involving

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

Israel or threatening Israel, or the interruption or curtailment of trade between Israel and its present trading partners, could adversely affect our operations.

Our results of operations could be negatively affected by the obligations of our personnel to perform military service.

Our operations could be disrupted by the absence for significant periods of one or more of our executive officers, key employees or a significant number of other employees because of military service. Some of our executive officers and some of our male employees in Israel are obligated to perform military reserve duty, which could accumulate annually from several days to up to two months in special cases and circumstances. The length of such reserve duty depends, among other factors, on an individual's age and prior position in the army. In addition, if a military conflict or war occurs, these persons could be required to serve in the military for extended periods of time. Any disruption in our operations as the result of military service by key personnel could harm our business.

Under current Israeli law, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.

Israeli courts have required employers seeking to enforce non-compete undertakings against former employees to demonstrate that the former employee breached an obligation to the employer and thereby caused harm to one of a limited number of legitimate interests of the employer recognized by the courts such as, the confidentiality of certain commercial information or a company's intellectual property. We currently have non-competition clauses in the employment agreements of most of our employees. The provisions of such clauses prohibit our employees, if they cease working for us, from directly competing with us or working for our competitors. In the event that any of our employees chooses to work for one of our competitors, we may be unable to prevent our competitors from benefiting from the expertise of our former employees obtained from us, if we cannot demonstrate to the court that a former employee breached a legitimate interest recognized by a court and that we suffered damage thereby.

- 8 -

It could be difficult to enforce a U.S. judgment against our officers, our directors and us.

All of our executive officers and directors are non-residents of the United States, and virtually all of our assets and the assets of these persons are located outside the United States. Therefore, it could be difficult to enforce a judgment obtained in the United States against us or any of these persons.

FORWARD-LOOKING STATEMENTS

The statements contained in this prospectus that are not historical facts are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. In particular, our statements regarding the potential growth of the markets are examples of such

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

forward-looking statements. The forward-looking statements include risks and uncertainties, including, but not limited to, the growth of the interactive game market and other factors, including general economic conditions and regulatory developments, not within our control. The factors discussed herein and expressed from time to time in our filings with the Securities and Exchange Commission could cause actual results and developments to be materially different from those expressed in or implied by such statements. The forward-looking statements are made only as of the date of this filing, and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the selling stockholders. We will not receive any proceeds from the sale of shares of common stock in this offering. However, we will receive the sale price of any common stock we sell to the selling stockholders upon exercise of outstanding warrants. We expect to use the proceeds received from the exercise of the warrants, if any, for general working capital purposes.

SELLING STOCKHOLDERS

The following table sets forth the common stock ownership of the selling stockholders as of April 19, 2005, including the number of shares of common stock issuable upon the exercise of warrants held by the selling stockholders. The selling stockholders acquired the securities being offered under this prospectus (1) pursuant to private transactions exempt from registration pursuant to Section 4(2) of the Securities Act, that was completed on January 27, 2005, pursuant to which the company sold an aggregate of 2,659,998 shares of common stock for aggregate gross proceeds of \$3,989,999; or (2) as compensation for services rendered to us in transactions made pursuant to the exemption from registration provided by Section 4(2) of the Securities Act. Other than as set forth in the following table, the selling stockholders have not held any position or office or had any other material relationship with us or any of our predecessors or affiliates within the past three years.

- 9 -

Name	Shares Beneficially Owned Prior to the Offering		Total Shares Offered (1)	Shares Aff
	Number	Percent (2)	Number	N
Benchmark Consulting Inc. (3)	50,000	*	50,000	
Charles Beeler	50,000	*	50,000	
David Sappir	500,000	2.1%	500,000	
Erinch R. Ozada	16,666	*	16,666	
First New York Securities L.L.C. (4) (5)	366,890	1.6%	200,000	16
Graham Partners (6)	266,666	1.1%	266,666	
Haystack Capital LP (4) (7)	612,000	2.6%	300,000	31
Ivy MA Holdings Limited (8)	100,000	*	100,000	
Punk, Ziegel & Company, L.P. (9)	78,200	*	78,200	
Sagiv Shiv	10,000	*	10,000	
Sedna Partners LP (10)	79,827	*	79,827	
Sedna Partners (QP) LP (11)	57,568	*	57,568	
Thomas H. Peterson	50,000	*	50,000	

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

Woodmont Investments Ltd. (12)	29,271	*	29,271
WPG Software Fund (13)	1,000,000	4.2%	1,000,000
Total	3,267,088		2,788,198

* Less than 1%.

- (1) Assumes that all securities registered will be sold and that all shares of common stock underlying the warrants will be issued.
- (2) Applicable percentage ownership is based on 23,250,010 shares of common stock outstanding as of April 19, 2005, together with securities exercisable or convertible into shares of common stock within 60 days of April 19, 2005. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of April 19, 2005 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.
- (3) The shares owned by Benchmark Consulting Inc. were acquired as compensation pursuant to a consulting contract. Neil Hecht makes the investment decisions on behalf of Benchmark Consulting Inc. and has voting control over the securities beneficially owned by Benchmark Consulting Inc.
- (4) This information is based on a Schedule 13G jointly filed with the Securities and Exchange Commission by First New York Securities L.L.C., Haystack Capital L.P., Judy Finger, Douglas Topkis and Lloyd Brokaw on April 7, 2005, describing the holdings of persons as of March 28, 2005.
- (5) Ms. Finger, Mr. Topkis and Mr. Brokaw make the investment decisions on behalf of First New York Securities L.L.C. and have voting control over the securities beneficially owned by First New York Securities L.L.C. First New York Securities L.L.C., which is a broker-dealer, has informed us that it acquired its shares of common stock in the ordinary course of business and, at the time of the acquisition thereof, it had no agreements or understandings, directly or indirectly, with any person to distribute the shares of common stock. First New York Securities is an "underwriter" within the meaning of the Securities Act.

- 10 -

- (6) Monica Graham makes the investment decisions on behalf of Graham Partners and has voting control over the securities beneficially owned by Graham Partners.
- (7) Judy Finger and Doug Topkis make the investment decisions on behalf of Haystack Capital LP and have voting control over the securities beneficially owned by Haystack Capital LP.
- (8) Judy Finger and Doug Topkis make the investment decisions on behalf of Ivy MA Holdings Limited and have voting control over the securities beneficially owned by Ivy MA Holdings Limited.
- (9) Consists of 78,200 shares of common stock issuable upon exercise of outstanding common stock purchase warrants, 25,000 of which have an exercise price of \$0.80 per share and 53,200 of which have an exercise price of \$1.50 per share. Bill Punk makes the investment decisions on behalf of Punk, Ziegel & Company, L.P. and has voting control over the securities beneficially owned by Punk, Ziegel & Company, L.P. Punk, Ziegel & Company, L.P. acted as the placement agent in connection with the transactions described under

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

"Description of Securities - January 2005 Financing;", for which it received a warrant to purchase up to 53,200 shares of common stock with an exercise price of \$1.50 per share, a warrant to purchase up to 25,000 shares of common stock with an exercise price of \$0.80 per share and an additional \$123,650 in cash. Punk, Ziegel & Company, L.P., which is a broker-dealer, has informed us that it acquired its warrants and any underlying shares of common stock in the ordinary course of business and, at the time of their acquisition thereof, it had no agreements or understandings, directly or indirectly, with any person to distribute the warrants or any underlying shares of common stock. To the extent that we become aware that Punk, Ziegel & Company, L.P. did not acquire their warrants or underlying shares of common stock in the ordinary course of business or did have such an agreement or understanding, we will file a post-effective amendment to the registration statement of which this prospectus forms a part to designate such affiliate as an "underwriter" within the meaning of the Securities Act.

- (10) Rengan Rajaratnam makes the investment decisions on behalf of Sedna Partners LP and has voting control over the securities beneficially owned by Sedna Partners LP.
- (11) Rengan Rajaratnam makes the investment decisions on behalf of Sedna Partners (QP) LP and has voting control over the securities beneficially owned by Sedna Partners (QP) LP.
- (12) Rengan Rajaratnam makes the investment decisions on behalf of Woodmont Investments Ltd. and has voting control over the securities beneficially owned by Woodmont Investments Ltd.
- (13) Ben Taylor and George Boyd make the investment decisions on behalf of WPG Software Fund and have voting control over the securities beneficially owned by WPG Software Fund.

PLAN OF DISTRIBUTION

The selling stockholders and any of their respective pledgees, donees, assignees and other successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares:

- o ordinary brokerage transactions and transactions in which the broker-dealer solicits the purchaser;
- o block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- o purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- o an exchange distribution in accordance with the rules of the applicable exchange;
- o privately-negotiated transactions;
- o broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- o through the writing of options on the shares;
- o a combination of any such methods of sale; and
- o any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 of the Securities Act, if available, rather than under this prospectus. The selling stockholders shall have the sole and absolute discretion not to accept any purchase offer or make any sale of shares if it deems the purchase price to be unsatisfactory at any particular time.

The selling stockholders or their respective pledgees, donees,

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

transferees or other successors in interest,

- 11 -

may also sell the shares directly to market makers acting as principals and/or broker-dealers acting as agents for themselves or their customers. Such broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling stockholders and/or the purchasers of shares for whom such broker-dealers may act as agents or to whom they sell as principal or both, which compensation as to a particular broker-dealer might be in excess of customary commissions. Market makers and block purchasers purchasing the shares will do so for their own account and at their own risk. It is possible that a selling stockholder will attempt to sell shares of common stock in block transactions to market makers or other purchasers at a price per share which may be below the then existing market price. We cannot assure that all or any of the shares offered in this prospectus will be issued to, or sold by, the selling stockholders. The selling stockholders and any brokers, dealers or agents, upon effecting the sale of any of the shares offered in this prospectus, may be deemed to be "underwriters" as that term is defined under the Securities Act, or the rules and regulations thereunder. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. First New York Securities L.L.C., one of the selling stockholders, is a registered broker-dealer and is an underwriter, as set forth above in note 5.

We are required to pay all fees and expenses incident to the registration of the shares, including fees and disbursements of counsel to the selling stockholders, but excluding brokerage commissions or underwriter discounts.

The selling stockholders, alternatively, may sell all or any part of the shares offered in this prospectus through an underwriter. To our knowledge, the selling stockholders have not entered into any agreement with a prospective underwriter and there is no assurance that any such agreement will be entered into.

The selling stockholders may pledge their shares to their brokers under the margin provisions of customer agreements. If a selling stockholder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares.

The selling stockholders and any other persons participating in the sale or distribution of the shares will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations under such Act, including, without limitation, Regulation M. These provisions may restrict certain activities of, and limit the timing of purchases and sales of any of the shares by, the selling stockholders or any other such person. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or exemptions. All of these limitations may affect the marketability of the shares.

If a selling stockholder notifies us that it has a material arrangement with a broker-dealer for the resale of the common stock, then we may be required to amend the registration statement of which this prospectus is a part, and file a prospectus supplement to describe the agreements between the selling stockholder and the broker-dealer.

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

We and the selling stockholders have each agreed to indemnify the other against certain liabilities, including certain liabilities arising under the Securities Act, or, in the alternative, that each party will be entitled to contribution in connection with those liabilities. We will bear all fees and expenses incurred in connection with the registration of the securities, except that selling stockholders will pay all broker's commissions and, in connection with any underwritten offering, underwriting discounts and commissions.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market for Securities

Our common stock began quotation on the Over-The-Counter Bulletin Board during the third quarter of 2003, and is currently quoted under the symbol "ZFPI.OB". The following sets forth the high and low bid quotations for the common stock since the third quarter of 2003. These quotations reflect prices between dealers, do not include retail mark-ups, markdowns, and commissions and may not necessarily represent actual transactions. The prices are adjusted to reflect all stock splits.

- 12 -

	High	Low

Fiscal Year Ending December 31, 2005		

Second Quarter (through April 19)	\$1.81	\$1.52

First Quarter (through March 31)	\$1.86	\$1.16
Fiscal Year Ended December 31, 2004		

First Quarter Ended March 31, 2004	\$1.13	\$0.60
Second Quarter Ended June 30, 2004	\$1.08	\$0.35
Third Quarter Ended September 30, 2004	\$0.95	\$0.51
Fourth Quarter Ended December 31, 2004	\$1.72	\$0.83

Fiscal Year Ended December 31, 2003		

First Quarter Ended March 31, 2003	---	---
Second Quarter Ended June 30, 2003	---	---
Third Quarter Ended September 30, 2003	\$0.07*	\$0.01*
Fourth Quarter Ended December 31, 2003	\$1.01	\$0.27

* Adjusted to reflect a 10:1 stock split effected on September 26, 2003.

As of April 19, 2005, there were 85 stockholders of record of our common stock.

Dividend Policy

Historically, we have not declared or paid any cash dividends on our common stock. Any future determination to pay dividends on our common stock will depend upon our results of operations, financial condition and capital requirements, applicable restrictions under any contractual arrangements and such other factors deemed relevant by our Board of Directors.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table shows information with respect to each equity

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

compensation plan under which our common stock is authorized for issuance as of December 31, 2004.

EQUITY COMPENSATION PLAN INFORMATION			
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of remaining future issued equity compensation (excluding reflected)
	(a)	(b)	
Equity compensation plans approved by security holders	-0-	-0-	
Equity compensation plans not approved by security holders	1,460,000	\$.60	3,5
Total	1,460,000	\$.60	3,5

2004 Global Share Option Plan

On November 23, 2004, our Board of Directors adopted a 2004 Global Share Option Plan. The 2004 Global Share Option Plan is intended to provide incentives to our employees, directors and consultants by providing

- 13 -

them with opportunities to purchase shares of our common stock. Under the terms of the 2004 Global Share Option Plan, it is effective as of November 23, 2004 and terminates at the end of ten years from such date. We have reserved 5,000,000 authorized but unissued shares of common stock to be issued under the 2004 Global Share Option Plan.

Our Board of Directors is authorized to administer the 2004 Global Share Option Plan. In doing so, our Board of Directors may: (i) designate optionees; (ii) determine the terms and provisions of respective option agreements (which need not be identical) including, but not limited to, the number of shares to be covered by each option, provisions concerning the time or times when and the extent to which the options may be exercised and the nature and duration of restrictions as to transferability or restrictions constituting substantial risk of forfeiture; (iii) accelerate the right of an optionee to exercise, in whole or in part, any previously granted option; (iv) interpret the provisions and supervise the administration of the 2004 Global Share Option Plan; (v) determine the fair market value of shares issuable under the 2004 Global Share Option Plan; (vi) designate the type of options to be granted to an optionee; and (vii) determine any other matter which is necessary or desirable for, or incidental to, the administration of the 2004 Global Share Option Plan.

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

On December 31, 2004, we issued an aggregate of 1,460,000 options under the 2004 Global Share Option Plan to various employees, directors and consultants. 1,300,000 of these options are exercisable at a price of \$0.55 per share and 160,000 of such options are exercisable at \$1.00 per share. All of the options expire on December 31, 2014.

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

The following discussion and analysis should be read in conjunction with the financial statements included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management.

OVERVIEW

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 audited financial statements and the notes to audited financial statements included elsewhere in this filing. 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.

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 companies, wireless operators, Internet service providers and hospitality service providers. Among our customers are AVAGO TV (Sky UK), NTL (UK), Telewest (UK), Cablevision (US), Lodgenet (US), RCN (US), The Poker Channel (UK) and Eurobet (UK).

Our customers typically enter into revenue-sharing 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 technology. In the course of these activities, we 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 December 31, 2004, we had a working capital deficit of \$385,993 and an accumulated deficit of \$2,957,668. There is no assurance that profitable operations, if ever achieved, will be

- 14 -

sustained on a continuing basis. During the year ended December 31, 2004, we derived 75% of our revenues from three major customers.

We refer in this discussion to the fiscal years ended December 31, 2004 and December 31, 2003, as "2004," and "2003," respectively.

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with U.S. GAAP. In connection with the preparation of the financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosure. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time the consolidated financial statements are prepared. On a regular basis, management reviews our accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with U.S. GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 2 of the notes to the consolidated financial statements, "Significant Accounting Policies".

Revenue Recognition

We account for our revenues from revenue sharing agreements and software licenses in accordance with the provisions of SOP 97-2, "Software Revenue Recognition," issued by the American Institute of Certified Public Accountants and as amended by SOP 98-9 and related interpretations. We may exercise judgment and use estimates in connection with the determination of the amount of revenue sharing to be recognized in each accounting period.

We assess whether collection is probable at the time of the transaction based on a number of factors, including the customer's past transaction history and credit worthiness. If we determine that the collection of the fee is not probable, we may defer the fee and recognize revenue at the time collection becomes probable, which is generally upon the receipt of cash.

We may enter into licensing agreements from time to time where we sell our software. Revenues from the sale of software are recognized in accordance with Statement of Position 81-1 "Accounting for Performance of Construction - Type and Certain Production - Type Contracts" based on the percentage of completion method over the period from signing of the license through the customer acceptance. The percentage of completion is measured by monitoring progress using records of actual time incurred to date in the project compared with the total estimated project requirements, which corresponds to the costs related to earned revenues. Estimates of total project requirements are based on prior experience of customization, delivery and acceptance of the same or similar technology and are reviewed and updated regularly by management. After delivery, if uncertainty exists about customer acceptance of the software, license revenue is not recognized until acceptance. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are first determined in the amount of the estimated loss on the entire contract.

Foreign Currency

The U.S. dollar is the functional currency of the Company. A part of our revenues and a portion of our expenses are transacted in U.S. dollars and our assets and liabilities together with our cash holdings are predominately denominated in U.S. dollars. However, the majority of financial transactions of our UK subsidiary Zone4Play (UK) Limited are in British Pound Sterling. Management believes that the British Pound Sterling is the functional currency of Zone4Play (UK) Limited. Accordingly, the financial statements of Zone4Play (UK) Limited have been translated into U.S. dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

date. Statement of operations amounts have been translated using the average exchange rate for the period. The resulting translation adjustments are reported as a component of accumulated other comprehensive loss in shareholders' equity. Increases in the volatility of the exchange rates of the British Pound Sterling versus the U.S. dollar could have an adverse effect on the expenses and liabilities that we incur when

- 15 -

translated into U.S. dollars.

As a result of such currency fluctuations and the conversion to U.S. dollars for financial reporting purposes, we may experience fluctuations in our operating results on an annual and a quarterly basis going forward. We have not in the past, but may in the future, hedge against fluctuations in exchange rates. Future hedging transactions may not successfully mitigate losses caused by currency fluctuations.

Accounting for Income Taxes

Significant judgment is required in determining our worldwide income tax expense provision. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of cost reimbursement arrangements among related entities, the process of identifying items of revenue and expense that qualify for preferential tax treatment and segregation of foreign and domestic income and expense to avoid double taxation. Although we believe that our estimates are reasonable, the final tax outcome of these matters may be different than the one which is reflected in our historical income tax provisions and accruals. Such differences could have a material effect on our income tax provision and net income (loss) in the period in which such determination is made.

Our accounting for deferred taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("Statement 109"), involves the evaluation of a number of factors concerning the realization of our deferred tax assets. In concluding that a valuation allowance is required, we primarily consider such factors as our history of operating losses and expected future losses in certain jurisdictions and the nature of our deferred tax assets. Management currently believes that it is more likely than not that the deferred tax regarding the carryforward of losses and certain accrued expenses will not be realized in the near future.

RESULTS OF OPERATIONS - YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

Revenues and Cost of Revenues

Total revenues for 2004 increased by 39% to \$768,624 from \$553,707 in 2003. Revenues from sales of software applications for 2004 increased by 230% to \$572,624 from \$173,707 in 2003. Revenues from one-time sales of software applications to related parties decreased by 48% to \$196,000 in 2004 compared to \$380,000 in 2003. The increase in revenues from software applications was due to new contracts, mainly in the United Kingdom. Also, in 2004, we had revenues from our US customers, such as Cablevision, Lodgenet, and RCN, with whom we did not have any engagement in 2003. The revenues from one-time sales of software applications to related parties in 2004 derived from the delivery of software to related parties from orders that were placed during 2002. Going forward, we expect that revenues from the sale of software applications to related parties will be nominal.

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

Cost of revenues for 2004 decreased by 34% to \$127,944 from \$194,904 for 2003. Gross profit increased by 79% for 2004 to \$640,680 from \$358,803 in 2003. The decrease in cost of revenues for 2004 is mostly attributable to a one-time software application agreement, which included customization of the software, which required allocation of certain research and development expenses to cost of sales.

Research and Development

Research and development expenses for 2004 increased by 167% to \$1,347,960 from \$504,153 for 2003. The increase in research and development expenses is primarily attributable to an increase in the hiring of technical employees during 2004, an increase in salary expenses, increased in other expenses allocated to the research and development department due to the growth of the research and development department and the joint venture agreement with NetFun Ltd. with regard to our mobile TV messaging subsidiary, MixTV Ltd., and amortization of deferred compensation related to warrants, which were granted to employees in the research and development department in 2004.

- 16 -

Sales and Marketing

Sales and marketing expenses for 2004 increased by 319% to \$607,511 from \$144,919 for 2003. The increase in sales and marketing expenses during 2004 is a result of increased marketing efforts, mainly in the United Kingdom and the United States, using our Israeli marketing team, which increased in size in 2004. Sales and marketing expenses consist mainly of labor costs, trade shows, travel expenses to the United Kingdom and the United States, and amortization of deferred compensation related to options which were granted to the relevant employees in 2004.

General and Administrative

General and administrative expenses for 2004 increased by 421% to \$565,190 from \$108,471 for 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 in the U.S., investor relations expenses and amortization of deferred compensation related to options which were granted to the relevant employees on 2004.

Net Loss and Net Loss Per Share

We incurred a net loss of \$1,920,877 (\$0.102 per share), in 2004 compared to a net loss of \$442,412 (\$0.039 per share) in 2003. The increased net loss is primarily attributable to our increased operating expenses. The weighted average number of shares of common stock outstanding at December 31, 2003 was 10,426,190 shares versus 18,831,765 shares at December 31, 2004.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31 2004, our total current assets were \$364,353, and our total current liabilities were \$750,346. At December 31, 2004, we had a working capital deficit of \$385,993 and an accumulated deficit of \$2,957,668. We finance our operations with a combination of securities issuances and revenues from product sales. As discussed below, we completed a private placement in January 2005 for aggregate gross proceeds of \$4.0 million.

In April 2004, we completed a \$1.2 million private placement,

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

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 other accredited investors.

On August 17, 2004, we completed a \$1.0 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 of \$2.50 per share. The private placement agreement was signed with a group of institutional and other accredited investors.

On January 27, 2005, we completed a private placement of 2,659,998 shares of common stock for aggregate gross proceeds of \$4.0 million. As required, on February 11, 2005, before February 17, 2005 deadline, we filed with the Securities and Exchange Commission a registration statement covering the resale of the common stock. If such registration statement is not declared effective on or before May 3, 2005, then we must pay to the investors liquidated damages equal to 1.5% of the aggregate purchase price paid by them.

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 contracts that we expect to execute in the near future. Nonetheless, we may raise additional funds through equity financings in order to broaden our financial strength and liquidity.

On March 10, 2005, we entered into a Stock Purchase Agreement with NetFun Ltd. under which the Company will acquire the remaining minority interests in MixTV Ltd., for consideration of 625,000 shares of

- 17 -

common stock of the Company. As a result of the Agreement, on the closing date, which will take place in April 2005, the Company will hold the entire interest in MixTV Ltd.

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 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.

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.

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

BUSINESS

Overview

We develop interactive games technology that provides an end-to-end solution for multiple platforms, interactive TV, mobile phones and the Internet, allowing service providers to deliver games to their subscribers. Our technology provides play-for-fun interactive games and play-for-real gaming.

Our customers include cable and satellite television companies, wireless operators, Internet service providers and hospitality service providers. Among our customers are AVAGO TV (Sky UK), NTL (UK), Telewest (UK), Cablevision (US), Lodgenet (US), RCN (US), The Poker Channel (UK) and Eurobet (UK).

Our technology allows service providers to generate additional revenue from their existing infrastructure and subscriber base, and allows a subscriber to switch from one platform, such as interactive TV (iTV), wireless or Internet, to another platform 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. With this capability, our technology increases the variety of services that our customers can offer.

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

We were incorporated under the laws of the State of Nevada on April 23, 2002, as Old Goat Enterprises, Inc. On February 1, 2004, Old Goat Enterprises, Inc. issued the shareholders of Zone 4 Play, Inc., a Delaware corporation, 10,426,190 shares of common stock, in consideration for the entire share capital of Zone 4 Play, Inc. Immediately after the issuance, the shareholders of Zone 4 Play, Inc. held 53% of the issued and outstanding share capital of Old Goat Enterprises, Inc., and subsequently changed its name to Zone 4 Play, Inc., a Nevada corporation. The transaction was accounted for as a reverse acquisition, whereby Old Goat was treated as the acquired company and Zone 4 Play, Inc. (Delaware) as the acquirer. The historical financial statements of Zone 4 Play, Inc. (Delaware) became our historical financial statements. We conduct our operations through our wholly owned subsidiaries, Zone4Play (Israel) Ltd., an Israeli corporation incorporated in July 2001, Zone4Play (UK) Limited, a United Kingdom corporation incorporated in November 2002 and Zone4Play, Inc., a Delaware corporation. We also own 50.1% of the issued and outstanding share capital of MixTV Ltd., which is a leading developer of mobile messaging TV technologies that are revolutionizing the television viewing experience by enabling massive multi-player participation on prerecorded and live television programs. Based on our agreement with NetFun Ltd., the holder of the minority interest in MixTV Ltd., we will own 100% of the issued and outstanding share capital of MixTV Ltd. in April 2005.

- 18 -

Industry Background

The interactive games market is currently divided into four different platforms, interactive TV, wireless applications, the Internet and SMS-TV.

Interactive television

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

Interactive television (iTV) enables a viewer to interact with TV content, respond to an ad or access internet-based services. For example, viewers can take part in a TV program, play games, make purchases and even send text messages and emails, all through their television set.

As part of the evolving growth of interactive TV, interactive entertainment channels and services are becoming increasingly popular. These channels and services create new forms of revenue streams that are driven not from traditional advertising but the monetization of the interactivity -- for example, paying to play games, search cinema listings and gambling.

Wireless

Wireless mobile is by far the largest media audience in history. With 1.7 billion subscribers, the wireless medium promises to reach a far broader audience than radio, TV or the Internet. Today there is a critical mass of download-capable, color handsets in the hands of consumers, and almost 100% of these phones are capable of interacting and responding in real-time. Wireless mobile offers a unique opportunity to establish a one-to-one relationship with an audience. The demand for games and other interactive wireless content such as news, sports and information services, images, and music, is booming, and according to industry analysts, is playing an increasingly dominant role in wireless phone usage.

Wireless operators closely guard their customer base and prefer to maintain "walled garden strategies"; i.e., complete control over the subscriber's access to wireless services. After initial forays into the development of wireless content in-house, most wireless operators are increasingly realizing that their core expertise is not in the development of content and services, but in providing the platform and provision of such services. As a result, wireless operators are increasingly beginning to adopt a more flexible strategy.

Currently wireless operators encourage the development of independent wireless content providers to supply innovative and compelling content. In return, mobile operators will benefit from increased customer loyalty due to the improved user service experience, rising wireless phone usage and increased data traffic, as well as a share of the related revenues, while avoiding the investment and risk involved in developing content and services.

Wireless entertainment has evolved from the basic cell phone to the sophisticated, full color, multi-player and interactive high quality wireless games of today. While the wireless medium may not offer quite as many features or be as visually impressive as console or PC games, we believe that wireless gaming will develop a growing following because of its convenience and other factors. Wireless entertainment also includes emerging mobile betting and gambling. We believe that the wireless gambling market will emerge as a significant opportunity like web-based gambling.

SMS-TV Market

The convergence of wireless and TV technologies enables an enhanced and enriched TV experience by providing the ability to embed additional program data, such as home audience cellular-based interaction, into live feeds or prerecorded shows and programs.

SMS texting and other user interactions that can respond to or influence television programming have recently gained significant popularity. Entertainment, sports and fixed-odds services will be at the heart of demand for such services. The "getting the audience involved" experience lets viewers interact with one another or with content associated with reality shows, regular shows, advertisements or fixed-odds games by sending in messages that are

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

displayed or accumulated on the television screen.

- 19 -

SMS interaction has been a significant success in Europe and Asia for several years, and recently has been making in-roads in the U.S.

A major and growing share of SMS is channeled to the emerging world of SMS-TV due to the ongoing innovative and creative development of content enabling the usage of mobile text messaging with TV broadcast content. For example, using the SMS channel for voting has proved particularly popular in Europe. O2 UK revealed recently that more than 200,000 votes were cast via premium SMS within one hour for the TV show Popstars - The Rivals.

The Interactive Entertainment Market

The interactive entertainment market has emerged as a result of the rapid growth and significant technological advancement in the communications industry. Service providers are launching new data services, including downloadable games, ring tones and images, to drive revenues and retain subscribers. They invest heavily in technology to take advantage of advanced networks and next-generation devices, including 3G mobile phones and new set-top cable and satellite boxes.

Our primary markets include:

- o Interactive TV (interactive cable and satellite television companies, television channels, and television programs), or iTV - Our iTV packages have been deployed by cable and satellite TV companies around the world, including Cablevision and RCN in the US, and SKY, Telewest and NTL in the UK.
- o Wireless service providers - We provide online games and support SMS, WAP, J2ME, PDA and 3G technologies. We offer a single user account feature which allows a user to utilize the wireless platform to play the same games on other platforms, including iTV and the Internet, under a single account with the same virtual account balance and user information.
- o Internet service providers - Our products are being deployed by ISP's (such as UPC (Holland and Austria)) and are available for IPTV (Internet Protocol TV based on technologies such as xDSL and FTTx) to offer our interactive games platform solutions.
- o Hospitality service providers (games on demand) - Our products are currently deployed by LodgeNet (US), a hotel in-room service provider platform. The hotel can offer its customers interactive games using their in-room TV and remote control.

Within the interactive entertainment market, we serve two market segments:

- o Play for Fun - Includes service providers offering interactive games that do not involve the direct transfer of money between the service provider and the subscriber. This is a rapidly growing market which holds great potential and opportunities for innovative gaming applications providers. Our solutions for the play for fun market include Zone4Play branded skill games, multi-player games, trivia games, casino games and sports games. We also develop customized games for our customers. Additionally, we provide content licensed from third-party developers such as Slingo and Game Universe.

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

- o Play for Real - Includes service providers that operate interactive gaming and gambling applications which involve monetary transactions between the service provider and the subscriber. Industry trends indicate that this market will continue to grow and offer subscribers a broad range of access possibilities to place real-money bets. This market is heavily regulated. Our current operations in this market are conducted exclusively in the United Kingdom.

Our Strategy

Our goal is to become a leading global provider of interactive games technology to the iTV, wireless and Internet markets. We believe that developing a diversified portfolio of high quality, innovative applications is critical to our business. We intend to:

- 20 -

- o Develop Innovative Applications. We will continue to devote significant resources to the development of high-quality, innovative applications and work with the best content developers. As the interactive entertainment landscape continuously evolves, we expect to extend our cross-platform solutions to accommodate advancements in network and device technology.
- o Emphasize Zone4Play-Branded Technology. We plan to emphasize the unique features of Zone4Play-branded applications, which typically generate higher margins for us. We intend to broaden our applications to highlight the community aspects of our content, thereby offering our customers the opportunity to increase subscriber satisfaction, leading to reduction in subscriber turnover.
- o License Third Party Brands. We will continue to license well-known, third party brands and collaborate with major media companies and other brand holders to introduce third party branded applications. We believe that familiar titles facilitate the adoption of our applications by our customers and their subscribers, and create strong marketing opportunities.
- o Establish a Leading Hosted Environment. We plan to leverage our cross-platform capabilities to develop a hosted environment that will allow customers to offer their subscribers the opportunity to participate in multi-player games with subscribers from other customers and on other platforms. We believe this approach will draw subscribers to the multi-player community by offering an established player base even to subscribers of new customers.
- o Emphasize our Business Model. We will continue to highlight our revenue-share model's collaborative features for our customers, the service providers. We believe the revenue-share model makes us a partner in the technology effort, fully committed to upgrading and enhancing the capabilities of our applications, since we have an ongoing interest in the revenue they generate for the customer and, ultimately, ourselves.

Our Competitive Strengths

We believe that our competitive strengths include:

Edgar Filing: ZONE 4 PLAY INC - Form SB-2/A

Proprietary, Award Winning, Technology and Commitment to Research and Development. We invest in research and development to create applications and technologies that incorporate the advanced capabilities of next-generation networks. We have developed proprietary technologies that enable us to distribute our solutions across different platforms. In 2002, our innovative technology won first place at the "Neddies," an international competition for iTV applications developers organized by NDS Ltd. We offer our cross-platform technologies through revenue-sharing arrangements with our customers. The cross-platform nature of our technologies allows us to remain neutral to the network choices made by our customers, and enables our customers to reach a larger number of subscribers.

Customer Relationships and Distribution Channels across Multiple Platforms. Service providers are our primary customers and the distributors of our applications. Over the past two years, we have established agreements to distribute our applications through major wireless operators, Internet service providers, and cable and satellite companies. We believe that we are able to build our distribution channels as a result of our focus on customer service, the quality of our applications and our ability to deploy those applications on a broad range of devices and networks. We believe that the time and difficulty involved in building a global distribution channel represents a significant barrier to entry for our potential competitors.

Diverse Portfolio of Original and Licensed Properties. We publish a diverse portfolio of interactive entertainment applications. Our applications span multiple categories and are based on intellectual property that we create and own and well-established brands that we license from third parties. We believe that our approach to develop branded content for our platform has broad customer appeal and reduces our reliance on any particular application. In addition to introducing new applications, we continuously update our existing applications to take advantage of enhanced functionality of new media platforms.

Recurring Revenue-Generating Business Model. Our business strategy emphasizes the collaborative nature of our approach to customers. We prefer to enter into revenue-share agreements with our customers, rather than license our technology. We believe this approach will continue to generate revenue long after the technology's initial release. The market data we collect from sales and usage of our applications also provides us with valuable

- 21 -

insight into carrier and subscriber preferences and guides the development of future application.

Our Products and Technology

Zone4Play's proprietary cross-system product line allows access to a variety of platforms through a single user account. Thus, our focus on inter-operability (iTV, Mobile, Internet) enables us to offer a choice of access possibilities in one all-encompassing technology.

Zone4Play's products are comprised of an array of components. The customer can select those components that are the most appropriate to be added. Back-office, single/multi-player, game engines interface with cellular, SMS TV, iTV and the Internet.

| WEB |