

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **2004-07-26** | Period of Report: **2004-02-29**
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FILER

VIRTUAL GAMING ENTERPRISES INC

CIK: **894562** | IRS No.: **870485308** | State of Incorpor.: **NV** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **033-55254-43** | Film No.: **04930876**
SIC: **7371** Computer programming services

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

- QUARTERLY report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the period ended February 29, 2004.
- Transition report under section 13 or 15(d) of the Securities Exchange Act of 1934.

COMMISSION FILE NUMBER: 33-55254-43

VIRTUAL GAMING ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State of Organization)

87-0485308
(I.R.S. Employer
Identification No.)

2580 Seascape Glen, Escondido, CA 92026
(Address of Principal Executive Offices)

Registrant's Telephone Number, Including Area Code: (760) 510-0188

Check whether the issuer: (1) has 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

Transitional Small Business Disclosure Format: Yes No

198,485,771 Common Shares, \$0.001 Par Value, Issued and Outstanding

VIRTUAL GAMING ENTERPRISES, INC.

(A Development Stage Enterprise)

FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

Balance Sheet.....

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Virtual Gaming Enterprises, Inc.
(A Development Stage Enterprise)
Balance Sheet

<CAPTION>

	February 29, 2004	May 31, 2003
	-----	-----
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash	\$ 29	\$ 34
Advances Receivables		
	-----	-----
Total Current Assets	\$ 29	\$ 34
OTHER ASSETS		
Intangible Assets	\$ 3,745,000	\$ 3,745,000
	-----	-----
Total Other Assets	\$ 3,745,000	\$ 3,745,000
	-----	-----
TOTAL ASSETS	\$ 3,745,029	\$ 3,745,034
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES		
Accrued Salaries Payable	\$ 1,335,632	\$ 1,091,882
Accrued Litigation Payable	334,375	317,500
Loan Payable-Related Parties	2,245,824	2,085,331
Short-Term Notes Payable	106,387	91,262
	-----	-----
Total Current Liabilities	\$ 4,022,218	\$ 3,585,975
	-----	-----
TOTAL LIABILITIES	\$ 4,022,218	\$ 3,585,975
STOCKHOLDERS' EQUITY (DEFICIENCY)		
Common Stock, 0.001 par value, authorized 200,000,000 shares, 198,485,771 and 159,485,771 issued and outstanding, respectively	\$ 40,141	\$ 40,142
Additional Paid in Capital	3,931,108	3,931,108
Stock held in Treasury, 85,008,000 and 400,000,000 respectively	(20,000)	(20,000)
Deficit Accumulated Since Inception	(4,228,438)	(3,792,191)
	-----	-----

Stockholders' Equity (Deficiency)	\$ (277,189)	\$ (159,059)
	-----	-----
TOTAL LIABILITIES and EQUITY	\$ 3,745,029	\$ 3,745,034
	=====	=====

The accompanying notes are an integral part of these financial statements.

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Virtual Gaming Enterprises, Inc.
(A Development Stage Enterprise)
Statement of Operations
For the Quarters ended February 29, 2004 and February 28, 2003
And From Inception Through February 29, 2004

	February 29, -----	February 28, -----	September 1997 (Inception) -----
<S>	<C>	<C>	<C>
Revenues	\$ 0.00	\$ 0.00	\$ 0.00
Expenses			
Compensation			
Officers	81,250.00	81,250.00	1,509,610.00
Others	0.00	0.00	54,073.00
Consultants	0.00	0.00	335,174.00
General & Administrative	5,064.00	4,507.00	728,284.00
Depreciation	0.00	0.00	5,000.00
Research & Development	0.00	0.00	130,500.00
Loss Due to Litigation	0.00	0.00	250,000.00
Total Expenses	\$ 86,314.00	\$ 85,757.00	\$ 3,012,641.00
Interest Expense	60,255.00	54,573.00	751,470.00
Loss From Operations	\$ (146,569.00) =====	\$ (140,330.00) =====	\$ (3,764,111.00) =====
Weighted Loss Per Share	(.0108)	(.0115)	(.0934)
Weighted Average Shares	40,303,067	40,303,067	40,303,067

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</TABLE>

VIRTUAL GAMING ENTERPRISES, INC.
(A Development Stage Enterprise)
NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES
THE COMPANY

Virtual Gaming Enterprises, Inc. is a Nevada chartered development stage corporation which conducts business from its headquarters in Escondido, California. The Company was incorporated on August 9, 1990. The operating company, now dissolved, was established in November 1997.

The Company has not yet engaged in its expected operations. The Company's future operations will be to provide casino gambling via the Internet. Current activities include raising additional equity and negotiating with potential key personnel and facilities. There is no assurance that any benefit will result from such activities. The Company will not receive any operating revenues until the commencement of operations, but will nevertheless continue to incur expenses until then.

The following summarize the more significant accounting and reporting policies and practices of the Company:

A) START-UP COSTS

Costs of start-up activities, including organization costs, are expensed as incurred, in accordance with Statement of Position (SOP) 98-5.

B) NET LOSS PER SHARE

Basic is computed by dividing the net loss by the weighted average number of common shares outstanding during the period.

C) USE OF ESTIMATES

The financial statements have been prepared in conformity with generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition and revenues and expenses for the period then ended. Actual results may differ significantly from those estimates.

D) PROPERTY AND EQUIPMENT

All property and equipment are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the costs and related accumulated depreciation are eliminated from their respective accounts, and the resulting gain or loss is included in the results of operations. Repairs and maintenance charges which do not increase the useful lives of the assets are charged to operations as incurred.

E) SIGNIFICANT ACQUISITION

In June 1998, Interbet, Inc. issued 13,136,539 shares of common stock to acquire all of the issued and outstanding shares of the common stock of Virtual Gaming Enterprises, Inc. (VGEE) in a reverse merger, accounted for as a reorganization of VGEE.

2) ADVANCES RECEIVABLE - RELATED PARTIES

The Company had borrowed \$91,262 for the year ended May 31, 2003 and \$28,032 for the year ended May 31, 2002 from officers. The Company had advanced \$82,198 to officers of the Company during the year ended May 31, 2001. These loan receivables and advances are due on demand and carry no stated interest rate.

(3) STOCKHOLDERS' EQUITY

The Company has authorized 50,000,000 shares of \$0.001 par value common stock. The Company had 40,303,067 shares of common stock issued and outstanding at May 31, 2001 and 8,287,701 shares of common stock issued and outstanding at May 31, 2000. The Company, in August 1990, issued 1,000,000 shares for \$1,000 in cash. In August 1996, the Company issued 100,000 shares for \$50,000 in cash. In December 1997, the Company issued 4,973,108 shares in conjunction with the acquisition of Interbet, Inc. In June 1998, the Company issued 2,000,000 shares in exchange for services valued at \$313,200. In June 1998, the Company issued 600,000 shares in settlement of a loan amounting to \$93,957. In June 1998, the Company issued 1,400,000 shares for \$46,400 in cash. In June 1998, the Company

VIRTUAL GAMING ENTERPRISES, INC.
(A Development Stage Enterprise)
NOTES TO FINANCIAL STATEMENTS

(3) STOCKHOLDERS' EQUITY (CONTINUED)

issued 13,136,539 shares for the acquisition of Virtual Gaming Enterprises, Inc. In February 1999, the Company completed a reverse split of its common stock, leaving 501,873 shares issued and outstanding. During the fourth quarter of fiscal 1999, the Company issued 1,679,949 shares for \$186,062 in cash. During the Year ended May 31, 2000, the Company issued 6,105,879 shares for \$3,169,759. During the year ended May 31, 2001, the Company issued 2,848,700 shares for \$451,833, 9,166,666 shares as compensation for \$67,167 and 20,000,000 shares as treasury stock for \$20,000.

On June 18, 2001, the Company issued 775,000 common shares to the Company's officers in accordance with their compensation agreements for a value of \$7,750. On November 10, 2001, the Company authorized a 50-for-1 reverse stock split. On April 15, 2002, the Company issued 10,000,000 common shares to the Company's officers in accordance with compensation agreements for a value of \$100,000. On April, 2002, the Company issued 10,993,851 common shares in accordance with agreements

entered into with consultants for a value of \$109,939. In August of 2002, the Company authorized a 50-for-1 reverse stock split. On September 10, 2002, the Company issued 40,000,000 shares of common shares to its Company officers under a compensation and anti-share dilution agreement for a value of \$40,000. During the year ended May 31, 2003, the Company entered into several consulting agreements with Company consultants whereby the company issued as compensation 34,427,879 common shares of stock for a value of \$34,428.

(4) INCOME TAXES

Deferred income taxes (benefits) are provided for certain income and expenses which are recognized in different periods for tax and financial reporting purposes. The Company has net operating loss carry-forwards for income tax purposes of approximately \$2,649,532, expiring \$20,500 at May 31, 2018, \$311,200 at May 31, 2019, \$771,523 at May 31, 2020, \$154,500 at May 31, 2021, \$690,115 at May 31, 2022 and 102,400 at May 31, 2023.

The amount recorded as deferred tax assets is approximately \$1,072,185 and \$382,100 as of May 31, 2002 and May 31, 2001, respectively, which represents the amount of tax benefit of the loss carryforward. The Company has established a 100% valuation allowance against this deferred tax asset, as the Company has no history of profitable operations.

(5) GOING CONCERN

As shown in the accompanying financial statements, the Company incurred a net loss of \$6,704,309 for the period from November 1997 (Inception) through May 31, 2003. The ability of the Company to continue as a going concern is dependent upon commencing operations and obtaining additional capital and financing. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. The Company is currently seeking financing to allow it to begin its planned operations.

(6) ASSET IMPAIRMENT

In accordance with Financial Accounting Standard 121, "Accounting for the Impairment of Longed-Lived assets", the Company's management has reviewed its purchase and investments in internet gaming and business-to-business web sites and has determined, based on future cash in-flows, that these assets have been impaired with a loss of \$2,620,000. The Company intends to continue its efforts to redesign its gaming sites and direct the sites to a different market.

(7) INTANGIBLE ASSETS

During the year ended May 31, 2001, the Company has engaged consultants to upgrade operating systems for the internet gambling casinos. During the year ended May 31, 2000, the Company Entered into agreements for the development of software that Will provide gaming capabilities on the internet. The Company has Invested \$1,898,001 during the year 2000 for 17 of these programs. The Company plans to lease and/or manage these sites for a fee. In May 1999, the Company formed Hung Sai, Ltd., a Nevis Corporation. In May 1999, Hung Sai entered into a license

agreement with a third party to provide an Internet gateway for future Internet casinos to be located in St. Kitts, West Indies. This agreement required a \$60,000 initial license fee and future revenue sharing from the Company's future on-line casinos. The Company expects to amortize the license fee over a five-year period, once commercialization has begun.

(8) EMPLOYMENT AGREEMENTS

In July of 2001, the Company extended its employment agreements with two of its officers whereby the agreements call for base pay amounts to total \$325,000. The agreement also calls for stock to be issued as compensation in order to maintain the officer's percentage of ownership of all outstanding stock as well as stock bonuses. In July 1998, the Company entered into employment agreements with two of its officers. These agreements have three-year terms expiring June 30, 2001. The agreements contain base pay amounts of \$250,000, \$280,000 and \$325,000, combined. These contracts also call for the issuance of options for 3,000,000 shares of the Company's common stock, 1,500,000 of which vested on December 1, 1998, and 150,000 per month beginning June 1, 1999 for a period of ten months.

(9) LEGAL PROCEEDINGS

On or about June 11, 1999, the United States Securities and Exchange Commission initiated a proceeding in the United States District Court, Southern District of California, against the Company seeking to hold the Company in Civil Contempt for failure to respond to a Subpoena issued by the Commission. The Court granted the Commission's request and issued an Order that sanctioned the Company Ten Thousand (\$10,000.00) Dollars per day until such time as it complied with the Commission's Subpoena.

Subsequent to the Company's compliance with the Commission's Subpoena, the Company and the Commission entered into a Stipulation and Order whereby the Company, having purged itself of the civil contempt citation, agreed to pay and did pay Ten Thousand (\$10,000.00) Dollars as a sanction. The Stipulation and Order was signed by the Court and filed on or about November 18, 1999.

Virtual Gaming Enterprises, Inc., and its President, Virgil Williams, On or about May, 2000, submitted Offers of Settlement to the United States Securities and Exchange Commission that stemmed from certain matters reviewed by the Commission. On July 29, 2002 the investigation had been terminated and no enforcement action has been recommended to the Commission.

In a civil proceeding filed in the United States District Court for the Eastern District of New York in January 2000, identified by Case Number 00 CIV 0276, Platinum I.T. Consulting, Inc., and Edward Marian, alleged that Virtual Gaming Enterprises, Inc., Virgil Williams, Brenda Williams and others violated Section 12(1) of the Securities Act, Violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, Breached their Contract(s) with Plaintiff(s), Fraudulently Induced Plaintiff(s) to purchase the Company's securities, Converted Plaintiff(s) funds, and

were Unjustly Enriched at Plaintiff's expense. Plaintiffs sought damages in excess of Five Million (\$5,000,000.00) Dollars.

The Company deemed it in its best interest to resolve this matter, as the costs and fees for defense would largely outweigh the costs of resolution. Accordingly, without admitting or denying the allegations in the Complaint, the Company and Virgil and Brenda Williams entered into a Settlement and Consent Judgment whereby they agreed to compensate the Plaintiffs in the amount of \$170,00.00 within 75 days of the effective date of the Settlement and Consent Judgment.

Due to the hospitalization of the Company's President Virgil Williams, the Company did not make payment as required under the Settlement and Consent Judgment. As a result, and by the terms and provisions of the Settlement and Consent Judgment, the Settlement Obligation has increased to \$250,000.00. The Company expects to remit this amount to the Plaintiffs, in care of Plaintiffs' Attorney, in short order.

Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations

Plan of Operation

The Registrant is continuing its efforts to provide management of, rent of or sales of casino gambling via the internet. The casinos are currently in the testing stage of their development. It is possible that the registrant will be successful in this plan of operation; however, there is no assurance for success.

Results of Operation

The Company did not have any operating income during the quarters ended November 30, 2003 and 2002. For the quarter ended November 30, 2003, the registrant recognized a net loss of \$145,206 as compared to \$198,907 during the prior year's quarter. Some compensation expenses, general and administrative cost were accrued. The Company issued stock for a value of \$319,000 for consulting services. All of the interest expense of \$58,187 was accrued during the quarter. Expenses for general and administrative were comprised of costs mainly associated with office overhead, legal and accounting fees.

Liquidity and Capital Resources

At November 30, 2003 the Company had not raised capital from the issuance of stock. The Company had no other capital resources other than funding casinos with notes payable from the creators of those casinos and the possibly of raising operating capital through the sale of additional common stock.

Part II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See footnote 9 to the financial statements included herein.

ITEM 2. CHANGES IN SECURITIES

Inapplicable/None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Inapplicable/None.

ITEM 4. SUBMISSION OF MATTER TO A VOTE OF SECURITY HOLDERS

Inapplicable/None.

ITEM 5. OTHER INFORMATION

Inapplicable/None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. EXHIBITS

Exhibit 31.1: Certification pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended.*

Exhibit 32.1: Certification of Chief Executive Officer and President of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith

B. REPORTS ON FORM 8-K

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this 10-KSB report to be signed on its behalf by the undersigned thereunto duly authorized.

VIRTUAL GAMING ENTERPRISES, INC.
(Registrant)

Date: July 26, 2004

/s/ Virgil G. Williams

Virgil G. Williams
President

CERTIFICATIONS

I, Virgil Williams, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Virtual Gaming Enterprises, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Omitted
 - c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of

the small business issuer's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: July 26, 2004

/s/ Virgil Williams

Virgil Williams
Principal Executive Officer
Principal Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Virtual Gaming Enterprises, Inc. (the "Company") on Form 10-QSB for the period ending November 30, 2003 (the "Report"), I, Virgil Williams, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirement of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the Company's financial position and results of operations.

/s/ Virgil Williams

Chief Executive Officer and
Chief Financial Officer
Date: July 26, 2004