

MAJESCO ENTERTAINMENT CO
Form 10-K
January 29, 2008

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

FORM 10-K

(Mark One)

Annual

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

For the fiscal year ended October 31, 2007

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 000-51128

MAJESCO ENTERTAINMENT COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE

06-1529524 (State or other jurisdiction of
incorporation or organization) (I.R.S. Employer
Identification No.)

160 Raritan Center Parkway
Edison, New Jersey 08837

(Address of principal executive office)

Registrant's telephone number, including area code (732) 225-8910

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

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

Common Stock, Par Value \$0.001
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

filer Accelerated filer Non-accelerated filer Large accelerated

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the common stock held by non-affiliates as of April 30, 2007 was \$16.3 million.

The outstanding number of shares of common stock as of January 29, 2008 was 28,709,135.

The Registrant's proxy or information statement is incorporated by reference into Part III of this Annual Report on Form 10-K.

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Item 1. Business.

Forward-looking Statements

Statements in this annual report on Form 10-K that are not historical facts constitute forward-looking statements which are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Those factors include, among other things, those listed under "Risk Factors" and elsewhere in this annual report. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of these statements. We are under no duty to update any of the forward-looking statements after the date of this annual report to conform these statements to actual results.

Introduction

We are a provider of interactive entertainment products. Our products allow us to capitalize on the large and growing installed base of interactive entertainment platforms and an increasing number of interactive entertainment enthusiasts. We sell our products primarily to large retail chains, specialty retail stores, video game rental outlets and distributors. We also sell our products internationally through distribution agreements with international publishers. Over the past two years, our product emphasis has been on games for the mass market with a focus on developing and publishing a wide range of casual and family oriented video games. We have developed our retail and distribution network relationships over our 20-year history.

We publish video games for almost all major current generation interactive entertainment hardware platforms, including Nintendo's DS, Game Boy Advance, or GBA, Micro GameCube and Wii, Sony's PlayStation 2, or PS2, and PlayStation Portable, or PSP®, Microsoft's Xbox and Xbox 360 and the personal computer, or PC. In addition, we have manufactured and marketed stand alone plug and play video game systems and peripheral devices targeted at the mass market.

Our video game titles are targeted at various demographics at a range of price points, from lower-priced "value" titles to more expensive "premium" titles. In some instances, these titles are based on licenses of well known properties, and in other cases based on original properties. We collaborate and enter into agreements with content providers and video game development studios for the creation of our video games.

Due to the larger budget requirements for developing and marketing premium console titles, we focus on publishing games for handheld systems and value products. Nintendo's Wii console has captured the mass market game audience while allowing for video game titles that fit within our more conservative cost structure. As such, we have expanded our strategic focus to capitalize on the growing installed base of the Wii system, and currently have eight Wii games in development.

Revised Business Model Update

During the second half of fiscal year 2005, we had several major developments that ultimately led us to revise our business model and shift our product strategy away from capital intensive premium console games to a focus on games for handheld systems and value products. During the latter half of the year the interactive entertainment industry experienced a sales slowdown related to the transition to the next generation of game consoles. At the same time, the prevalence of MP3 players and other devices providing digital entertainment led to increased competition for consumers' discretionary spending. As a result, we experienced weak sales across all of our product lines and subsequently

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decided to sell off our rights to and/or cancel a number of our big budget video games in development. For our fiscal year ended October 31, 2005 we recorded impairment charges related to capitalized software development costs and prepaid license fees of \$36.8 million and inventory of \$5.1 million. This contributed to an operating loss of \$70.2 million.

Subsequently, we revised our strategy and business model to focus product development efforts on quality games that are easy to “pick-up-and-play”, priced affordably and targeted for the mass market.

Throughout fiscal 2007 we continue to execute our revised business model and product strategy. Key accomplishments include:

- Reached 1.0 million units sold domestically of the Cooking Mama franchise.
- Signed digital distribution agreements with Microsoft to add Psychonauts to its Xbox Originals program that lets Xbox 360 owners download classic Xbox titles for play on the 360. This deal complements our growing digital download partnerships with GameTap, Macrovision’s Trymedia Network, Steam, and Boonty, for several of our catalog titles including: Psychonauts, BloodRayne 1&2, Advent Rising and Blowout.
- Received an industry award nomination for Cake Mania on the Nintendo DS in the category of best Casual Video Game of the Year from the British Academy of Film and Television Arts.
- Published 13 titles for the Nintendo DS, 1 title for the Nintendo Game Boy Advance, 2 titles for the Sony PlayStation Portable and 1 title for the Microsoft Xbox 360.
- Published our first 2 Wii titles: Cooking Mama and Bust-A-Move

Corporate Background

Majesco Sales Inc. was incorporated in 1986 under the laws of the State of New Jersey. On December 5, 2003, Majesco Sales Inc. completed a reverse merger with Majesco Holdings Inc. (formerly ConnectivCorp), then a publicly traded company with no active operations. Majesco Holdings Inc. was incorporated in 1998 under the laws of the State of Delaware. As a result of the merger, Majesco Sales Inc. became a wholly-owned subsidiary and the sole operating business of the public company. On April 4, 2005, Majesco Sales Inc. was merged into Majesco Holdings Inc., and, in connection with the merger, Majesco Holdings Inc. changed its name to Majesco Entertainment Company. Our principal executive offices are located at 160 Raritan Center Parkway, Edison, NJ 08837, and our telephone number is (732) 225-8910. Our web site address is www.majescoentertainment.com.

Industry Overview

The interactive entertainment industry is mainly comprised of video game hardware platforms, video game software and peripherals. Within this industry, North American combined sales of video game hardware, video game software and video game peripherals were approximately \$17.9 billion in 2007 according to the NPD Group. Of that total, video game software sales accounted for \$8.6 billion, and hardware and accessories sales accounted for \$9.3 billion.

Video Game Hardware Platforms

Video game hardware platforms are comprised of home game consoles, or consoles, and portable handheld game devices, or handhelds, as well as multi-functional devices such as PCs, Personal Digital Assistants, or PDAs, and mobile phones. The current generation of consoles includes Nintendo's Wii, Sony's PlayStation 3 and Microsoft's Xbox 360. On November 22, 2005, Microsoft launched the first of the next-generation consoles, the Xbox 360. According to the NPD Group, the installed base for the Xbox 360 as of December 2007 is approximately 9.2 million. Sony's PlayStation 3 and Nintendo's Wii, were released in North America on November 17, 2006 and November 19, 2006, respectively.

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According to the NPD Group, the installed base for the Wii and PlayStation 3 as of December, 2007 are approximately 7.4 million and 3.3 million respectively. These advanced consoles feature improved graphics capabilities, increased storage capacity and incremental online, wireless and multi-media entertainment functionality intended to attract a wider audience.

The current generation of handhelds is dominated by Nintendo's DS which launched in November 2004 and features a dual screen, wi-fi capability, higher capacity storage media than the Game Boy Advance, and is backward compatible with GBA cartridges. According to the NPD Group, the North American Nintendo DS installed base is 17.7 million as of December 2007. In March 2005, Sony launched the Sony PlayStation Portable system. According to the NPD Group, the North American PSP installed base is approximately 10.5 million as of December 2007.

The ability of multi-functional devices, such as PCs, PDAs and mobile phones to serve as video game platforms has also been greatly enhanced. This is due to periodic advances in microprocessors, graphics chips, storage capacity, operating systems and media and digital rights management. These advances have enabled developers to introduce video games for multi-functional devices with enhanced game play technology and high resolution graphics.

Video Game Software

Video game software is created by the console and handheld manufacturers, and by independent publishers and developers. Console and handheld manufacturers license publishers to develop video games for their platforms and retain a significant degree of control over the content, quality and manufacturing of these products. Most manufacturers also receive a royalty for every software title manufactured for their platform. The publishers, subject to the approval of the platform manufacturers, determine the types of games they will create. Publishers either utilize their own in-house development teams or outsource game development to third-party developers. Following development, publishers then market and sell these products to retailers, either directly or through resellers.

Premium games are often based on licensed popular content or original content with strong characters and storylines. Premium games for consoles generally receive extensive development and marketing investments. Premium games are also higher priced than value titles.

Value titles are generally priced at or below a suggested retail price of \$20.00. Success in the value category is largely based on the ability to cost-effectively bring value titles to market quickly, capitalize on current trends, and place these titles with major retailers.

Traditionally, video games and video content have been delivered using CDs, DVDs or cartridges. More recently, full games and other supplemental content including additional levels, weapons, vehicles and more can now be delivered via the Internet through game portals such as Xbox Live, and various Internet sites, such as Yahoo!. The popularity of this emerging download category is expected to increase, especially within the large-scale multiplayer game segment, and among the user bases of the next generation consoles, PDAs and mobile phones.

Peripherals

Most video game hardware platforms have a variety of peripherals that are designed to enhance the functionality of the device and the experience of the user. For instance, DS users can purchase headphone peripherals that enable private listening. New peripherals have also been developed that enable users to play video games on their televisions without the need for dedicated home game consoles.

Strategy

Our objective is to be an innovative provider of video games for the mass market with a focus on developing and publishing a wide range of casual and family oriented video games. Specifically, we will strive to:

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Focus product development efforts on quality games that are easy to “pick-up-and-play”, priced affordably and targeted for the mass market.

Video game development for handheld systems is generally less expensive and simpler than development for the current and next-generation home consoles. As such, we are focusing our game development efforts in this area with an emphasis on products for the Nintendo DS system that has been experiencing solid growth. We also believe that Nintendo’s Wii console, with its appealing price point and unique play mechanic, will continue to resonate with the mainstream gamer. The Wii’s mass market appeal, combined with its relatively affordable development costs, fits well within our strategy. As such, we now have eight games in development for this system including; titles based on the well-known and critically acclaimed franchise, Cooking Mama; and new intellectual property including Our House. In general, from a game play/content perspective, we are focusing on publishing games that are relatively easy to play and whose subject matter will appeal to as wide an audience as possible.

Leverage our long-term success in the value category.

Publishing software for the value category (suggested price point at or below \$20), which requires a relatively low investment in development and marketing, has historically been one of our strengths. We have published a strong portfolio of value titles for the GBA platform that includes products based on well-known licensed properties, such as Frogger, Cartoon Network, Strawberry Shortcake as well as popular mass market interests/trends (Monster Trucks, Quad Desert Fury, Texas Hold ‘Em Poker, The New York Times Crosswords). We are one of the first publishers to develop a line of high-quality value titles for the Nintendo DS handheld system and to date have launched 23 such titles priced at or below \$20.00. We have also opportunistically published console titles that offer a quality game play experience at value price points such as Kengo: Legend of the 9, Phantom Dust, Guilty Gear, Worms 4: Mayhem. Going forward, we will capitalize on our ability to quickly create or obtain high-quality products to sell at value prices and expand our value product line to other platforms, genres and distribution outlets.

Strategically pursue alternative distribution channels for existing and new products.

Over the last year, we have continued to pursue partnerships in the digital download arena. Psychonauts was recently added to Microsoft’s Xbox Originals program which lets Xbox 360 owners download classic Xbox titles for play on the 360. We also licensed out non-exclusive digital rights for back catalog PC games, such as BloodRayne 2, Psychonauts and Advent Rising, to some of the leading players in this area including Turner’s GameTap Network, Valve’s Steam broadband gaming platform, TryMedia’s digital download network and Boonty. We view these initiatives as incremental revenue with little to no cost. We are in discussions with additional partners in order to maximize this revenue stream and further participate in the digital download and fast-growing online gaming market.

Increase our market share in Europe and Pacific Rim territories.

As the global gaming market continues to grow, we believe that international markets represent a significant growth opportunity for us. Over the last two years, we have expanded our international presence and in late fiscal year 2005 we established an office in the United Kingdom and entered into a license and distribution agreement with a leading international publisher for distribution in European and PAL territories. Under this agreement, the distributor fulfills all sales, marketing and distribution needs for our multi-format product line-up. Our first sales under this agreement were realized in early 2006. We have generated revenues of approximately \$17.3 million through the end of fiscal year 2007. We are also developing distribution relationships in Asia Pacific and Japan and are targeting new territories, such as China, for expansion.

Leverage our industry relationships and entrepreneurial environment to enter new categories and bring innovative products to market.

In the past, we have leveraged our experience, entrepreneurial environment and industry relationships with developers, manufacturers, content providers, retailers and resellers to create and

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distribute new and innovative products. We will continue to capitalize on current market trends and pursue new product opportunities in categories related to our core business.

Products

We offer our customers a wide selection of interactive entertainment products for a variety of platforms.

Our most successful franchise to date has been Cooking Mama that through January 29, 2008 has sold approximately 1.5 million units across three SKU's. In North America Cooking Mama for the DS was first introduced in September 2006 at a \$19.99 value price and has sold more than 1.0 million units. The Wii version, Cooking Mama: Cook Off, launched in March 2007 and the latest release in the franchise is Cooking Mama 2: Dinner with Friends for the DS that was released in November 2007 at a \$29.99 price point

Games

As of November, 2007, our active catalog included more than 40 SKUs, which we categorize as either value or premium titles.

Value Titles

We believe we are a leading publisher of value titles and will continue to expand our value product line to other platforms, genres and distribution outlets. Value titles are typically sold at suggested retail prices at or below \$20. Examples of products in this category include:

- Titles based on emerging consumer fads or trends where we rapidly develop a quality title to capitalize on such interest, such as our two Brain Boost titles, ATV Quad Frenzy and Texas Hold 'Em;
- Titles based on well-known downloadable games such as Cake Mania and Fish Tycoon; and
- Titles that were once our premium titles but over time have become part of our value line including: The New York Times Crosswords, Holly Hobbie & Friends and Age of Empires for DS.

Selected value titles, their compatible platforms and launch or anticipated launch dates include:

Titles	Platform	Launch Date	Selected		
Monster Trucks	GBA	October 2004	Texas Hold 'Em Poker	GBA	October 2004
Ultra Bust-A-Move	Xbox	October 2004	Quad: Desert Fury 2	GBA	February 2005
Phantom Dust	Xbox	May 2005	Worms 4: Mayhem	Xbox, PC	October 2005
Looney Toons Double Pack	GBA	October 2005	Monster Trucks	DS	November 2005
Texas Hold 'Em Poker	DS	November 2005	ATV Quad Frenzy	DS	November 2005
Golden Nugget Casino	DS	November 2005	Bust-A-Move DS	DS	December 2005
Kong: King of Atlantis	GBA	December 2005	3-1 Rec Room	GBA	December 2005
Super Black Bass Fishing	DS	March 2006	3-1 Sports Pack	GBA	March 2006
Bust-A-Move Deluxe	PSP	April 2006			

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		Selected
Titles	Platform	Launch Date
Dino Master	DS	May 2006
Strawberry Shortcake Sweet Dreams	GBA	September 2006
Cooking Mama	DS	September 2006
Monster Bomber	DS	November 2006
Brain Boost: Beta & Gamma	DS	November 2006
F-24 Stealth Fighter	GBA	November 2006
F-24 Stealth Fighter	DS	February 2007
Cake Mania	DS	April 2007
Toon-Doku	DS	April 2007
Operation Vietnam	DS	August 2007
Turn It Around	DS	August 2007
The Wild West	DS	August 2007
Fish Tycoon	DS	October 2007
Left Brain Right Brain	DS	November 2007
Furu Furu Park	Wii	January 2008
Mega Brain Boost	DS	January 2008
Pet Pals: Animal Doctor	DS	January 2008
Blokus Portable: Steambot Championship	PSP	February 2008
Toy Shop	DS	April 2008
Cake Mania 2	DS	June 2008
Nancy Drew 2	DS	July 2008

Premium Titles

Our most successful proprietary premium title has been BloodRayne, which since its launch, in October 2002, has generated significant consumer interest and worldwide retail sales of more than 753,000 units. As a result of this success, we developed a sequel, BloodRayne 2, which was released in October 2004, and entered into a number of licensing agreements including a strategy guide, a comic book series, apparel, resin statues, WallSkinz, a feature film that was released in January 2006 and a sequel film that was released in September 2007. In addition to intellectual properties that we own, we also license the rights to content from developers or media entertainment companies as in the cases of Age of Empires, Cake Mania, Cooking Mama, Nacho Libre, Teen Titans and the classic action-suspense film Jaws.

Selected premium titles, their compatible platforms and launch or anticipated launch dates include:

		Selected
Titles	Platform	Launch Date
BloodRayne	Xbox, PS2, GC, PC	October 2002
BloodRayne 2	Xbox, PS2, PC	October 2004
Advent Rising	Xbox, PC	May 2005
Psychonauts	Xbox, PS2, PC	April, July 2005
Teen Titans	GBA	October 2005
Infected	PSP	November 2005
Aeon Flux	Xbox, PS2	November 2005
Teen Titans	GBA	Fe