MAJESCO HOLDINGS INC
Form 424B1
January 26, 2005
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Registration File No.: 333-120103

PROSPECTUS

6,000,000 Shares

Common Stock

We are selling 3,682,176 shares of our common stock and the selling stockholders are selling 2,317,824 shares. We will not receive any of the proceeds from the sale of shares by the selling stockholders.

Our common stock will begin trading on the Nasdaq National Market under the symbol "MJES" commencing January 26, 2005. Previously, our common stock was quoted on the OTC Bulletin Board. The last sale price of our common stock as reported on the OTC Bulletin Board on January 24, 2005 was $16.25 per share.

Investing in our common stock involves risks including those described in the "Risk Factors" section beginning on page 6 of this prospectus.

PRICE $12.50 PER SHARE

	Per Share	Total
Public offering price	$ 12.50	$75,000,000
Underwriting discounts and commissions	$ 0.8125	$ 4,875,000
Proceeds, before expenses, to us	$ 11.6875	$43,035,432
Proceeds, before expenses, to the selling stockholders	$ 11.6875	$27,089,568

The underwriters may also purchase up to an additional 540,000 shares from us and 360,000 shares from selling stockholders at the public offering price, less the underwriting discount and commissions, within 30 days from the date of this prospectus to cover over-allotments, if any.

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.

The shares of common stock will be ready for delivery in New York, New York on or about January 31, 2005.

RBC CAPITAL MARKETS JMP SECURITIES
HARRIS NESBITT WEDBUSH MORGAN SECURITIES INC.

January 25, 2005

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of common stock. Unless the context requires otherwise, in this prospectus the terms "we," "our," "us," "the Company" and "Majesco" refer to Majesco Holdings Inc. and its wholly-owned subsidiary, Majesco Sales Inc.

We own, have rights to, or have applied for the trademarks and trade names that we use in conjunction with our business, including Majesco and our logo. All other trademarks and trade names appearing in this prospectus are the property of their respective holders.

Industry data in this prospectus has been gathered from published sources that were not specifically prepared or approved for use in this prospectus, is used by permission, and is subject to copyright by the sources cited, with all i

PROSPECTUS SUMMARY

The following summary highlights information we present more fully elsewhere in this prospectus. This prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors described under the heading "Risk Factors" and elsewhere in this prospectus.

Our Business

We are an innovative provider of diversified offerings for digital entertainment platforms. Our offerings include video game titles, video content titles and digital media peripherals and applications. Our diverse products provide us with multiple opportunities to capitalize on the large and growing installed base of digital entertainment platforms and an increasing number of digital entertainment enthusiasts. We sell our products directly and through resellers primarily to U.S. retail chains, including Best Buy, Electronics Boutique, GameStop, Kmart, Target, Toys "R" Us and Wal-Mart. We have developed our retail and distribution network relationships over our 18-year history.

Our Market and Offerings

The digital entertainment product industry is comprised of video game hardware platforms, video game software, video content and digital media peripherals and applications. Within this industry, worldwide sales of video game hardware and video game software were approximately $23 billion in 2003 and are expected to grow to over $31 billion in 2009, according to DFC Intelligence.

We provide offerings for all major current-generation interactive digital entertainment hardware platforms, including Nintendo's Game Boy Advance, or GBA, and GameCube, Sony's PlayStation 2, or PS2, Microsoft's Xbox and the personal computer, or PC. We are also developing offerings for next-generation home game consoles, including Sony's PlayStation 3, Microsoft's Xbox 2 and next-generation portable handheld game devices, including Nintendo's DS and Sony's PSP.

Our video game titles are targeted at various demographics at a range of price points, from lower-priced "value" titles to premium-priced "frontline" titles. Our value titles include proprietary properties, such as Quad: Desert Fury and Texas Hold 'Em, and well-known licensed properties, such as Frogger's Adventure and Pac-Man Collection. We expect to continue to release new value titles on a regular basis. Our frontline titles include BloodRayne, which has sold more than 600,000 units worldwide, and its sequel, BloodRayne 2, which was released in October 2004. We collaborate and enter into agreements with leading content providers and video game development studios for the development of our frontline titles. We expect to expand our frontline titles by releasing several new titles in 2005, including, Advent Rising, which is anticipated to be the first in a trilogy of epic science fiction games developed in collaboration with award-winning science fiction author Orson Scott Card, Jaws, which is based on the well-known classic film and Psychonauts, which is being developed by Double Fine Productions, a studio founded and managed by award-winning game designer Tim Schafer.

Our GBA Video content titles, which utilize our proprietary video compression technology, allow GBA users to view up to 45 minutes of video content on each of our GBA Video cartridges. Nintendo's GBA North American installed base was approximately 29 million units as of September 2004, according to Nintendo. Since the retail launch of our GBA Video titles in May 2004, we have released more than 20 of these titles and sold more than three million units. Our GBA Video cartridges were the first such products sold, and we are currently the only third party to have obtained approval from Nintendo to sell GBA Video products. We offer a variety of GBA Video titles today that are primarily targeted at the youth market and are based on popular Cartoon Network, Disney, FUNimation and Nickelodeon characters, such as Code Name: Kids Next Door, Dragon Ball GT, Fairly OddParents, Kim Possible, Lilo & Stitch and SpongeBob SquarePants. We intend to actively pursue licenses for new, top-quality video content, introduce new GBA video cartridges that contain up to 90 minutes of video and expand our product line to include titles appealing to a broader demographic market.

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We design, manufacture and market a line of innovative digital media peripherals and applications, which we also refer to as "gadgets," including GBA wrap-around style headphones, GBA "wireless link" and "wireless messenger" applications and stand-alone TV Arcade "plug-and-play" video game systems. We are the only third party that Nintendo has approved to sell GBA headphones and we believe we are currently the only seller of wireless applications for the Nintendo GBA. Our GBA headphones were launched in May 2004 and our GBA wireless applications and stand-alone TV Arcade "plug-and-play" video game systems were launched during the 2004 holiday season. Since their launch, we have sold more than 800,000 TV Arcade "plug-and-play" products.

Our Strengths

Our key strengths include:

- Diversified range of offerings across platforms, target markets and price points;
- Established relationships with platform manufacturers, content providers and third-party developers;
- Access to shelf space and broad exposure for our products through well-developed retailer network;
- Ability to innovate and rapidly commercialize products; and
- Seasoned management team and strong Board of Directors.

Our Strategy

Our objective is to be an innovative and leading provider of diversified offerings for digital entertainment platforms. Our strategy to achieve this objective is to:

- Leverage our industry relationships and entrepreneurial environment to continue to bring innovative products to market;
- Capitalize on our first-to-market position in GBA Video;
- Introduce frontline titles with high-margin, franchise potential;
- Maintain focus on diversification and managing risk; and
- Grow through international expansion, new strategic partnerships and acquisitions.

Corporate Information

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 ConnectivCorp, then a publicly traded company with no active operations. ConnectivCorp 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 13, 2004, the public company changed its name from "ConnectivCorp" to "Majesco Holdings Inc." to better reflect its current operating business. 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.majescogames.com. The information contained on our web site is not incorporated by reference in this prospectus.

The Offering

Common stock offered by us	3,682,176 shares
Common stock offered by the selling stockholders	2,317,824 shares
Common stock to be outstanding after this offering	22,104,141 shares
Use of proceeds	We currently intend to use the proceeds of this offering to fund the growth of our business and for general corporate purposes, including working capital and to satisfy a litigation settlement. Proceeds could also be used to acquire products, technologies, content or businesses that are complementary to our business. We have no current plans, agreements or commitments for acquisitions of any businesses, products or technologies.
Nasdaq National Market symbol	"MJES"

Common stock to be outstanding after this offering is based on 16,724,834 shares of common stock outstanding as of January 24, 2005 and 1,697,131 shares to be issued upon exercise of warrants with an exercise price of $7.00 per share at the closing of this offering, but does not include:

- 1,562,102 shares subject to warrants outstanding with a weighted average exercise price of $11.72;
- 1,689,748 shares subject to stock options outstanding with a weighted average exercise price of $17.52; and
- 453,109 shares available for future grant or issuance under our stock option plan, which amount includes the increased amount reserved for issuance under the plan as consented to by our stockholders pursuant to a written consent.

On December 31, 2004, we effectuated a 1-for-7 reverse stock split. Accordingly, all share amounts including conversion and exercise prices contained in this prospectus are stated and have been calculated on a post-split basis, unless otherwise indicated.

Except as otherwise indicated, all of the information in this prospectus assumes no exercise of the underwriters' over-allotment option.

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Summary Consolidated Financial Information

The following tables summarize certain selected consolidated financial data, which should be read in conjunction with our audited consolidated financial statements and the notes thereto and with management's discussion and analysis of financial condition and results of operations included elsewhere in this prospectus. On December 5, 2003, Majesco Sales Inc. completed a reverse merger with ConnectivCorp, then a publicly traded company with no active operations. As a result of the merger, Majesco Sales Inc. became a wholly-owned subsidiary and the sole operating business of the public company. All financial information presented reflects our results as if we had acquired ConnectivCorp on December 5, 2003 and as though we had effectuated retroactively at the beginning of the periods presented a 1-for-7 reverse split of our common stock, which occurred on December 31, 2004.

	Year Ended October 31,				
	2004	2003	2002	2001	2000
	(in thousands except share data)				
Consolidated Statement of Operations Data:					
Net revenues	$ 120,984	$ 46,608	$ 49,688	$ 60,566	$ 46,034
Cost of sales	86,242	30,803	31,992	40,923	33,372
Gross profit	34,742	15,805	17,696	19,643	12,662
Operating expenses (1)	22,630	24,545	16,153	15,619	11,004
Operating income (loss)	12,112	(8,740)	1,543	4,024	1,658
Interest and financing costs	2,806	2,077	2,093	2,702	1,483
Other non-operating expense (income) (2)	19,068	24	201	1,215	(510)
Income (loss) before income taxes	(9,762)	(10,841)	(751)	107	685
Provision for income taxes	1,424	—	—	—	—
Net income (loss)	$ (11,186)	$ (10,841)	$ (751)	$ 107	$ 685
Net income (loss) attributable to common stockholders (3)	$ (15,388)	$ (10,841)	$ (751)	$ 107	$ 685
Net income (loss) attributable to common stockholders per share:					
Basic and Diluted	$ (1.84)	$ (4.95)	$ (0.34)	$ 0.05	$ 0.31
Weighted average shares outstanding:					
Basic and Diluted	8,385,657	2,189,285	2,189,285	2,189,285	2,189,285

(1) Operating expenses includes (i) for 2004, a charge for an accounts receivable write-off of $577,000 related to the Kay-Bee Toys bankruptcy and $342,000 related to a non-cash compensation charge, and a gain of $1.2 million related to the renegotiation of our 2003 litigation settlement, (ii) for 2003, provisions for loss on impairment of software development costs of $3.7 million and litigation and

settlement costs of $4.9 million and (iii) for 2001, a provision for severance of $1.5 million to former employees.

(2)Other non-operating expense (income) includes (i) for 2004, expenses related to the merger with ConnectivCorp of $342,000, an unrealized loss on foreign exchange contract of $267,000 and a non-cash charge of $18.5 million related to the change in fair value of warrants, (ii) for 2003, an unrealized loss on a foreign exchange contract of $24,000, (iii) for 2002, a loss on an abandoned equity offering of $201,000, (iv) for 2001, a provision for loss on an affiliate indebtedness of $1.2 million and (v) for 2000, a $510,000 gain on sale of fixed assets.

(3)Includes for 2004, a non-cash charge of $759,000 related to a deemed dividend to the holders of the 7% convertible preferred stock issued in connection with our February 2004 private placement, a preferred stock dividend requirement of $1.3 million payable in common stock and a $2.2 million non-cash charge related to the fair value of warrants issued in connection with lock-up agreements by certain stockholders.

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	As of October 31, 2004		
	Actual	Pro forma (1)	Pro forma as adjusted (2)
		(in thousands)	
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 4,170	$ 11,070	$64,495
Working capital	8,915	15,815	69,240
Total assets	43,952	50,852	104,277
Dividend payable in common stock	1,261	—	—
Stockholders' equity	13,785	21,946	75,371

(1)The balance sheet data as of October 31, 2004 on a pro forma basis is unaudited and gives effect to (i) the issuance of 78,283 shares of common stock on November 15, 2004 issued in connection with a preferred stock dividend, (ii) the issuance of 1,171,419 shares of common stock upon the exercise on December 22, 2004 of outstanding warrants resulting in net proceeds of $6.4 million and (iii) the issuance of 71,428 shares of common stock issued upon the exercise of outstanding placement agent warrants on January 7, 2005 for an aggregate exercise price of $500,000.

(2)The balance sheet data as of October 31, 2004 on a pro forma as adjusted basis is unaudited and gives effect to (i) the matters referred to in footnote (1) above, (ii) the sale of 3,682,176 shares of common stock by us in this offering, after deducting underwriting discounts and commissions and estimated offering expenses, including those incurred by the selling stockholders to be paid by us and (iii) the receipt by us of net proceeds of $11,083,326 to be received upon exercise of warrants held by the selling stockholders upon the closing of this offering.

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RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below together with all of the other information included in this prospectus before making an investment decision. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we may currently deem immaterial, may become important factors that harm our business, financial condition or results of operations. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related To Our Business

We expect our operating results to fluctuate on a quarterly and annual basis, which may result in volatility in our stock price.

Our quarterly net revenues and results of operations have significantly varied in the past and can be expected to significantly vary in the future. Our business experiences substantial seasonality, and typically, our net revenues are significantly higher during our fourth fiscal quarter ending October 31 than during our other quarters because of increased consumer demand during the year-end holiday season. As a result, our fourth fiscal quarter accounts for a significant portion of our revenues and profitability for the entire fiscal year, and if we are not successful in the fourth fiscal quarter, this may have a significant adverse impact on our entire fiscal year. Other factors that cause fluctuations include:

- the timing of the release of our new offerings;
- the popularity of our new offerings and offerings released in prior periods;
- changes in the mix of offerings with varying profit margins;
- competitive factors, including the introduction of new products, product enhancements and technologies;
- the timing of new platform releases;
- product approval delays;
- shipping or manufacturing difficulties or delays; and
- fluctuations in the size and rate of growth of consumer demand for titles for different platforms.

As a result of these and other factors, we cannot assure you that our results of operations will be consistent on a quarterly or annual basis. Accordingly, you should not rely on our results of operations for a particular quarter or year as an indication of our future performance. If our results of operations in a quarter fall below our expectations and the expectations of market analysts or investors, the price of our common stock may likely decrease.

We have experienced recent net losses and we may incur future net losses which may cause a decrease in our stock price.

In fiscal years 2002, 2003 and 2004, we incurred net losses of $751,000, $10.8 million and $11.2 million, respectively. In fiscal years 2002 and 2003, these net losses were principally related to our operations, and included financing costs, litigation expense and impairment reserves. For the fiscal year 2004, our net loss related principally to a non-cash charge to reflect the change in the fair value of our outstanding warrants issued in our February 2004 private placement. We expect to continue to incur increased operating expenses over the next several years in connection with the continued growth of our business, such as increased sales and marketing expenditures, development costs and costs associated with expanding our general and administrative functions. We may not generate revenues sufficient to offset these increased costs, and may sustain losses in future periods. If we do become profitable, we may not sustain or increase our profitability. Continued losses, or an inability to sustain profitability, may have an adverse effect on our stock price.

Customer accommodations could materially and adversely affect our business, financial condition or results of operations.

When demand for our offerings falls below expectations, we may negotiate accommodations to retailers or distributors in order to maintain our relationships with our customers and access to our sales channels. These accommodations include negotiation of price discounts and credits against future orders. At the time of product shipment, we establish reserves for price protection and other similar allowances. These reserves are established according to our estimates of the potential for markdown allowances based upon historical rates, expected sales, retailer inventories of products and other factors. We cannot predict with certainty whether existing reserves will be sufficient to offset any accommodations we will provide, or the amount or nature of accommodations that we will provide in the future. If actual accommodations exceed our reserves, our earnings would be reduced, perhaps materially. Any such reduction may have an adverse effect on our business, financial condition or results of operations.

Our business activities may require additional financing that might not be obtainable on acceptable terms, if at all, which could have a material adverse effect on our financial condition and liquidity.

As our business expands, we expect to increase our expenditures in a number of efforts, including sales, marketing, licensing and product development. Although there can be no assurance, our management believes that there are sufficient capital resources from the proceeds of this offering and from operations, including our factoring and purchase order financing arrangements, to finance our operational requirements through at least the next twelve months. If we incur operating losses, or if unforeseen events occur that would require additional funding, we may need to raise additional capital or incur debt to fund our operations. We would expect to seek such capital through sales of additional equity or debt securities and/or loans from financial institutions, but there can be no assurance that funds will be available to us on acceptable terms, if at all, and any sales of additional securities will be dilutive to investors in this offering. Failure to obtain financing or obtaining financing on unfavorable terms could have a material adverse effect on future operating prospects and continued growth and could result in a decrease in our stock price.

We may be unable to develop and publish new products if we are unable to secure or maintain relationships with leading independent video game software developers.

We utilize the services of independent software developers to develop our video games. Consequently, our success in the video game market depends on our continued ability to obtain or renew product development agreements with leading independent video game software developers. However, we cannot assure you that we will be able to obtain or renew these product development agreements on favorable terms, or at all, nor can we assure you that we will be able to obtain the rights to sequels of successful products which were originally developed for us by leading independent video game software developers. Many of our competitors have greater financial resources and access to capital than we do, which puts us at a competitive disadvantage when bidding to attract leading independent video game software developers to enter into publishing agreements with us. We may be unable to secure or maintain relationships with leading independent video game software developers if our competitors can offer them better shelf access, better marketing support, more development funding, higher royalty rates, more creative control or other advantages. Usually, our agreements with independent software developers are easily terminable, sometimes without notice, if either party declares bankruptcy, becomes insolvent, ceases operations or materially breaches its agreement and fails to cure that breach within a designated time frame. In addition, many leading independent video game software developers have limited financial resources. Many are small companies with a few key individuals without whom a project may be difficult or impossible to complete. Consequently, we are exposed to the risk that these developers will go out of business before completing a project, lose key personnel or simply cease work on a project for which we have hired them.

If we are unable to maintain or acquire licenses to intellectual property, we may publish fewer titles and our revenue may decline.

Many of our video game titles, and all of our GBA Video titles and plug-and-play video game offerings, are based on or incorporate intellectual property and other character or story rights

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acquired or licensed from third parties. We expect that many of our future products will also be based on intellectual property owned by others. The cost of acquiring these licenses is often high, and competition for these licenses is intense. Many of our competitors have greater resources to capitalize on licensing opportunities. Our licenses are generally limited in scope to specific platform and/or geographic territories, and generally last for two to three years. We may not be able to obtain new licenses, renew licenses when they expire or include new offerings under existing licenses. If we are unable to obtain new licenses or maintain existing licenses that have significant commercial value, or maintain our licenses at reasonable costs, we may be unable to sustain our revenue growth in the future other than through sales or licensing of our independently created material.

If we are unable to successfully introduce new products on a timely basis, or anticipate and adapt to rapidly changing technology, including new hardware platform technology, our business may suffer.

A significant component of our strategy is to continue to bring new and innovative products to market, and we expect to incur significant development, licensing and marketing costs in connection with this strategy. The process of introducing new products or product enhancements is extremely complex, time consuming and expensive, and will become more complex as new platforms and technologies emerge. For example, the development of frontline video games requires significant development and marketing expenditures. In the event we are not successful in developing new titles, peripherals and other products that gain wide acceptance in the marketplace, we may not recoup our investment costs in these new products, and our business, financial condition and results of operations could be materially negatively affected.

Furthermore, digital entertainment platforms are characterized by rapidly changing technology. We must continually anticipate the emergence of, and adapt our products to, new digital entertainment platforms and technologies. The introduction of new technologies, including new console and handheld technology, software media formats and delivery channels, could render our previously released products obsolete, unmarketable or unnecessary. In addition, if we incur significant expense developing products for a new system that is ultimately unpopular, sales of these products may be less than expected and we may not be able to recoup our investment. Conversely, if we choose not to publish products for a new system that becomes popular, our revenue growth, reputation and competitive position may be adversely affected. Even if we are able to accurately predict which video game platforms will be most successful, we must deliver and market offerings that are accepted in our extremely competitive marketplace.

The loss of any of our key customers could adversely affect our sales.

Our sales to Wal-Mart, Toys "R" Us and Jack of All Games accounted for approximately 27%, 25% and 16% of our net revenue for the fiscal year 2004, respectively. Although we seek to broaden our customer base, we anticipate that a small number of customers will continue to account for a large concentration of our sales given the consolidation of the retail industry. We do not have written agreements in place with several of our major customers. Consequently, our relationship with these retailers could change at any time. Our business, results of operations and financial condition could be adversely affected if:

- We lose any of our significant customers;
- Any of these customers purchase fewer of our offerings; or
- We experience any other adverse change in our relationship with any of these customers.

We have grown rapidly and if we fail to manage our growth, our business may suffer.

Although we commenced operations 18 years ago, recently we have experienced, and continue to experience, significant growth in our operations. This growth has entailed hiring key personnel, including our Chief Executive Officer, developing and introducing to market several new product lines and forging new customer and licensing relationships. We anticipate that further expansion of our operations will be required to address our potential growth as we continue to address market opportunities. This expansion has placed, and is expected to continue to place, a substantial strain on our management, operational and financial resources. In order to manage future growth, we will be

required to improve existing and implement new operating and management systems, procedures and controls. We also need to hire, train and manage additional qualified personnel. A significant factor in our growth has been a substantial increase in consumer demand for our products. If we do not effectively manage our growth, we may not adequately satisfy this demand. In addition, the quality of our offerings or our ability to develop and bring our offerings to market on a timely or cost effective basis could suffer. This could negatively impact our reputation, revenue and results of operations.

We must continue to strengthen our financial systems and controls, and failure to do so could adversely affect our ability to provide timely and accurate financial statements.

As a closely-held company with no prior public reporting obligations prior to our merger with ConnectivCorp in December 2003, we had committed limited personnel and resources to the development of our internal financial controls and systems. In connection with our fiscal year 2003 financial statement audit and in connection with their continuing engagement, our independent auditors have and continue to provide us with comments and recommendations regarding a number of areas in our internal accounting and disclosure controls needing improvement. These areas include: segregating duties in key functions; the creation of formal accounting controls, policies and procedures; a need to hire additional management and staff experienced in financial reporting; and finalizing documentation of our accounting and disclosure internal controls and procedures. We have begun to address these issues by hiring a Chief Financial Officer who was formerly a partner in a Big Four accounting firm. We believe that as a result of our fiscal year 2004 audit, our auditors will likely issue to us a management letter setting forth their recommendations related to the above issues. There can be no assurance as to the nature of the recommendations, observations and suggestions regarding our operations, activities and efficiencies that may be contained in the management letter.

Continued improvement in our internal controls and procedures and the continued hiring and training of key accounting personnel will be required in order for us to manage future growth successfully and effectively assess our results of operations and liquidity needs. Continued improvement of our internal controls as well as compliance with the Sarbanes-Oxley Act of 2002 and related requirements will be costly and will place a significant burden on management. In addition, as of October 31, 2005, we will become subject to the heightened internal control and procedure requirements of Section 404 of the Sarbanes-Oxley Act. To date, we have taken limited actions with respect to our requirements under Section 404, and we expect to hire additional personnel and/or engage outside consultants, among other preparations, over the next twelve months to assist in our Section 404 related activities. Upon completion of this offering, we will have had only limited operating experience with the improvements we have made. We cannot assure you that the measures we have taken or any future measures will enable us to provide accurate and timely financial reports, particularly if we are unable to hire additional personnel in our accounting and financial department, or if we lose personnel in this area. Any failure to improve our internal controls or other problems with our financial systems or internal controls could result in delays or inaccuracies in reporting financial information, or non-compliance with SEC reporting and other regulatory requirements, any of which could adversely affect our business and stock price.

Significant competition in our industry could adversely affect our business.

We cannot assure you that we will be able to successfully compete against our current or future competitors or that competitive pressures will not have a material adverse effect on our business, results of operations or financial condition. The market for digital entertainment products, including video game titles, video content titles and digital media peripherals and applications, is highly competitive and relatively few products achieve significant market acceptance. We face significant competition with respect to our products, which may also result in price reductions, reduced gross margins and loss of market share. Many of our competitors have significantly greater financial, marketing and product development resources than we do. As a result, current and future competitors may be able to:

- respond more quickly to new or emerging technologies or changes in customer preferences;
- undertake more extensive marketing campaigns;

- devote greater resources to secure rights to valuable licenses and relationships with leading software developers;
- gain access to wider distribution channels; and
- have better access to prime shelf space.

With respect to our video game products, we compete with many other third party publishers in both our value and frontline market segments. In addition, console and handheld manufacturers, such as Microsoft, Nintendo and Sony, publish software for their respective platforms, and media companies and film studios are increasing their focus on the video game software market and may become significant competitors. We expect competition to increase in both the value and frontline areas as more competitors enter the video game market.

While our GBA Video titles were the first video content titles to market, and to date the only third party titles that Nintendo has approved for the GBA, our competitors are developing competing titles and compression technology. Nintendo may approve these competing titles, which may utilize superior technology and prove to be more successful than our products. Nintendo itself is already using an alternative form of compression technology and producing GBA Video titles that compete with our products. We cannot assure you that competitors will not be able to also secure strong relationships with content providers on terms equal to or more favorable than we have. In addition, sales of our GBA Video products will be affected by the success of other portable video player platforms, including portable DVD players and other handheld video devices.

Our digital media peripherals and applications also face significant competition. For example, there have been a number of other recent "plug-and-play" video game systems containing different software, and offering different games, than ours. In addition, platform manufacturers may expand their product lines to include digital media peripherals and applications that may compete with our product offerings. Next-generation consoles may also render our digital media peripherals and applications obsolete. For example, Nintendo may incorporate an email or "chat" concept in future generations of its GBA, which could render our "wireless messenger" application obsolete.

Increased competition for limited shelf space and promotional support from retailers could affect the success of our business and require us to incur greater expenses to market our products.

Retailers typically have limited shelf space and promotional resources, such as circulars and in-store advertising, to support any one product among an increasing number of newly introduced entertainment offerings. Competition for retail support and shelf space is expected to increase, which may require us to increase our marketing expenditures or reduce prices to retailers. Competitors with more extensive lines, popular products and financial resources frequently have greater bargaining power with retailers. Accordingly, we may not be able to achieve or maintain the levels of support and shelf space that our competitors receive. As a result, sales of our products may be less than expected, which would have a material and adverse effect on our business, financial condition and results of operations.

Termination or modification of our agreements with hardware manufacturers, who are also competitors and frequently control the manufacturing of our titles, may adversely affect our business.

We are required to obtain a license in order to develop and distribute software for each of the manufacturers of video game hardware. We currently have licenses from Sony to develop products for PlayStation, PlayStation 2 and PSP, from Nintendo to develop products for the GBA and GameCube, and from Microsoft to develop products for the Xbox. These licenses are non-exclusive, and as a result, many of our competitors also have licenses to develop and distribute video game software for these systems. These licenses must be periodically renewed, and if they are not, or if any of our licenses are terminated or adversely modified, we may not be able to publish games for such platforms or we may be required to do so on less attractive terms.

Our contracts with these manufacturers grant them approval rights over new products and often also grant them control over the manufacturing of our products. While we believe our relationships

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with these manufacturers are good, the potential for delay or refusal to approve or support our products exists, particularly since these manufacturers are also video game publishers and hence are also our competitors. We may suffer an adverse effect on our business if these manufacturers:

- do not approve a project for which we have expended significant resources;
- refuse or are unable to manufacture or ship our products;
- increase manufacturing lead times or delay the manufacturing of our products; or
- require us to take significant risks in prepaying and holding an inventory of products.

We may face limitations on our ability to find suitable acquisition opportunities and difficulties in integrating acquired businesses.

A component of our strategy is to grow through strategic relationships and acquisitions. If we make acquisitions, they could be material in size and scope. While we will continually be searching for appropriate strategic partnerships or acquisition opportunities, there can be no assurance that we will be successful in identifying suitable candidates. As the video game and digital entertainment industry continues to consolidate, we face significant competition for strategic partnership or acquisition opportunities, which may inhibit our ability to complete suitable transactions. Additionally, our management has generally had limited experience completing acquisitions or managing the integration of acquisitions. Accordingly, in the event we are able to identify suitable acquisition candidates, we cannot guarantee that we will be able to successfully complete or integrate any business, products, technologies or personnel that we might acquire or seek to acquire in the future, and our failure to do so could harm our business. Furthermore, any future acquisitions, if completed, would subject us to many risks, including:

- difficulties in integrating the products, operations or personnel of acquired companies into our business;
- diversion of our management's attention from our ongoing operations;
- additional expenses associated with amortization of acquired assets or impairment of acquired goodwill;
- difficulties in maintaining uniform standards, controls, procedures and policies;
- potential impairment of existing relationships with employees and customers as a result of the difficulties in integration of new management personnel; and
- dilution to our stockholders in the event we issue stock to finance an acquisition or increased leverage if we incur debt to finance an acquisition.

The loss of our senior management and skilled personnel could negatively affect our business.

Our business greatly relies on the services of Morris Sutton, our Chairman Emeritus, and his relationships with hardware manufacturers, licensors of our content and several of our customers. We also greatly rely on the services of Carl Yankowski, our Chief Executive Officer, and Kevin Ray, our Chief Technology Officer. Our future success will depend to a significant degree upon the performance and contribution of these and other members of our senior management team, and upon our ability to attract, motivate and retain other highly qualified employees with technical, management, marketing, sales, product development, creative and other skills. In our industry, competition for highly skilled and creative employees is intense and costly. Our business, financial condition and results of operations could be materially and adversely affected if we lost the services of any members of our senior management team or key technical or creative employees or if we failed to attract additional highly qualified employees.

We intend to increase our revenues from our international operations, which may subject us to economic, political, regulatory and other risks.

Historically, we have not devoted significant resources to our international operations. However, a component of our strategy is to expand our international operations in order to increase our revenues. Expanding our international operations, however, may subject us to many risks, including:

- economic and political instability;
- compliance with foreign and domestic laws and regulations;
- changes in foreign and domestic legal and regulatory requirements or policies resulting in burdensome government controls, tariffs, restrictions, embargoes or export license requirements;

- currency fluctuations;
- difficulties in staffing and managing our international operations;
- less favorable foreign intellectual property laws making it more difficult to protect our properties from appropriation by competitors;
- potentially adverse tax treatment;
- difficulties with distributors; and
- difficulties collecting our accounts receivable.

Rating systems for digital entertainment software, potential legislation and consumer opposition could inhibit sales of our products.

Trade organizations within the video game industry require digital entertainment software publishers to provide consumers with information relating to graphic violence, profanity or sexually explicit material contained in software titles, and impose penalties for noncompliance. Certain countries have also established similar rating systems as prerequisites for sales of digital entertainment software in such countries. In some instances, we may be required to modify our products to comply with the requirements of these rating systems, which could delay the release of those products in these countries. Some of our existing and proposed new titles have and will receive an "M" rating, meaning it is not recommended for children under 17. We believe that we comply with such rating systems and properly display the ratings and content descriptions received for our titles. Several proposals have been made for legislation to regulate the digital entertainment software, broadcasting and recording industries, including a proposal to adopt a common rating system for digital entertainment software, television and music containing violence or sexually explicit material, and the Federal Trade Commission has issued reports with respect to the marketing of such material to minors. Consumer advocacy groups have also opposed sales of digital entertainment software containing graphic violence or sexually explicit material by pressing for legislation in these areas, including legislation prohibiting the sale of certain "M" rated video games to minors, and by engaging in public demonstrations and media campaigns. Retailers may decline to sell digital entertainment software containing graphic violence or sexually explicit material, which may limit the potential market for our "M" rated products, and adversely affect our operating results. If any groups, whether governmental entities, hardware manufacturers or advocacy groups, were to target our "M" rated titles, we might be required to significantly change or discontinue a particular title, which in the case of one of our popular titles, could materially affect our business.

Our intellectual property is vulnerable to misappropriation and the effects of competitive, non-infringing technology, any of which could adversely affect our business prospects.

Our business relies heavily on proprietary intellectual property, whether our own or licensed from third parties. We own or have rights to use proprietary technology that we believe affords us a current competitive advantage. This technology is not, however, fully protected from infringement by competitors or from the introduction of non-infringing technologies. Despite our efforts to protect our proprietary rights, unauthorized parties may try to copy our products, or obtain and use information

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that we regard as proprietary. In addition, the laws of some foreign countries may not protect our proprietary rights to as great an extent as U.S. law. Furthermore, our pending patent applications are provisional, and our pending and future patent and trademark applications may not issue as patents or trademarks, as the case may be, and even if they do issue, such patents or trademarks may not be of such sufficient scope or strength to provide meaningful economic or competitive value. Our rights and the additional steps we have taken to protect our intellectual property may not be adequate to deter misappropriation, particularly given the difficulty of effectively policing unauthorized use of our properties, and our proprietary position remains subject to the risk that our competitors or others will independently develop non-infringing technologies substantially equivalent or superior to our technologies. If we are unable to protect our intellectual property, or if we are sued for infringing on another party's intellectual property, our business, financial condition or results of operation could be materially adversely affected.

Intellectual property claims may increase our product costs or require us to cease selling affected products which could adversely affect our earnings and sales.

Development of original content, including publication and distribution, sometimes results in claims of intellectual property infringement. Although we make efforts to ensure our products do not violate the intellectual property rights of others, it is possible that third parties still may allege infringement. These claims, and any litigation resulting from these claims, could prevent us from selling the affected product, or require us to redesign the affected product to avoid infringement or obtain a license for future sales of the affected product. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations and future business prospects. Any litigation resulting from these claims could require us to incur substantial costs and divert significant resources, including the efforts of our technical and management personnel.

If our products contain defects, our business could be harmed significantly.

The software products, and digital media products that employ software in their operations, that we publish and distribute are complex and may contain undetected errors when first introduced or when new versions are released. Despite extensive testing prior to release, we cannot be certain that errors will not be found in new products or releases after shipment, which could result in loss of or delay in market acceptance. This loss or delay could significantly harm our business and financial results.

If we account for employee stock options using the fair value method, it could significantly reduce our net income.

As permitted under SFAS No. 123, "Accounting for Stock-Based Compensation," we provide quarterly and annual disclosures of the impact to earnings per share if stock options were expensed. We estimate that if stock options were expensed in accordance with SFAS 123, the impact for fiscal 2004 would have been an increase in net loss of approximately $1.9 million. In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS 123R, "Share-Based Payment," which will require all companies to measure compensation costs for all share-based payments, including employee stock options, at fair value. This statement will be effective for the quarter beginning August 1, 2005.

Non-cash charges will reduce our earnings and may cause our stock to decline.

We incurred non-cash charges in connection with the grant of 2.1 million options to our Chief Executive Officer, Carl Yankowski to purchase shares of common stock, at a 64% discount to the market price of our common stock. As a result of this grant, we incurred non-cash compensation expense of $316,000 for the fourth quarter of fiscal year 2004 and will incur $465,000 for each of the succeeding six quarters. In addition, during the first quarter 2005, we will record a non-cash charge of $1.1 million to recognize the exercise of warrants at a reduced exercise price. The charge will reduce net income attributable to common stockholders in the calculation of earnings per share.

The National Association of Securities Dealers, or NASD, has conducted a review of certain unusual trading activity in our common stock which coincided with the signing of a letter of intent with respect to our merger, the outcome of which could have a material adverse effect on our reputation, listing, financial condition, results of operations and liquidity.

On December 17, 2003 we received a letter from the NASD's Market Regulation Department stating that the NASD was conducting a review of unusual trading activity in our common stock between the time of the signing of the letter of intent with respect to our merger with ConnectivCorp and the date that we announced that a letter of intent was signed. There also appears to have been unusual trading activity around the time of the signing of the definitive agreement for the merger and prior to the announcement of such signing. Our current officers were not the subject of this investigation.

By letter dated April 22, 2004, the NASD indicated that it had concluded its review. The letter indicated that the NASD referred the matter to the SEC for whatever action, if any, the SEC deems appropriate. The letter concluded that "This referral should not be construed as indicating that any violations of the federal securities laws or the NASD Conduct Rules have occurred, or as a reflection upon the merits of the security involved or upon any person who effected transactions in such security." If we are sanctioned or otherwise held liable for this trading, any such sanctions could have a material adverse effect on our reputation, listing, financial condition, results of operations and liquidity. In addition, it is possible that such matters may give rise to civil or criminal actions.

Risks Related to this Offering

Our stock price is highly volatile.

The trading price of our common stock has been and could continue to be subject to wide fluctuations in response to certain factors, including, but not limited to, the following:

- quarter to quarter variations in results of operations;
- our announcements of new products;
- our competitors' announcements of new products;
- our product development or release schedule;
- general conditions in the video game software, entertainment, media or electronics industries;
- our ability to successfully negotiate licenses with third parties;
- timing of the introduction of new hardware platforms and delays in the actual release of new hardware platforms;
- changes in earnings estimates; or
- investor perceptions and expectations regarding our products, plans and strategic position and those of our competitors and customers.

Additionally, the public stock markets experience extreme price and trading volume volatility, particularly in the high technology and entertainment sectors of the market. This volatility has significantly affected the market prices of securities of many companies in these industries for reasons often unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock.

There may be an adverse effect on the market price of our stock as a result of shares being available for sale in the future.

We will have 22,104,141 shares of common stock outstanding after the completion of this offering, assuming no exercise of the underwriters' overallotment option, which shares will be able to be sold in the public market in the near future, subject to outstanding lock-up arrangements and, with respect to shares of common stock held by affiliates and shares issued between 12 and 24 months ago, the

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volume restrictions and/or manner of sale requirements of Rule 144 under the Securities Act. A significant portion of these shares are held by a small number of stockholders, including some of the selling stockholders in this offering. Historically, our trading volume has been relatively low. Sales by our current stockholders of a substantial number of shares after this offering could significantly reduce the market price of our common stock. These sales also could impede our ability to raise future capital.

Anti-takeover provisions in our certificate of incorporation and Delaware law could prevent a potential acquirer from buying your stock at a price you deem beneficial.

Anti-takeover provisions of Delaware law may make a change in control of our company more difficult, even if a change in control would be beneficial to our stockholders. These provisions may allow our board of directors to prevent or make changes in our management and control. Without any further vote or action on the part of the stockholders, the board of directors will have the authority to determine the price, rights, preferences, privileges and restrictions of our preferred stock. This preferred stock may have preference over and impair the rights of the holders of our common stock. Although the ability to issue preferred stock may provide us with flexibility in connection with possible investment acquisitions and other corporate purposes, this issuance may make it more difficult for a third party to acquire a majority of our outstanding voting stock. Similarly, our authorized but unissued common stock is available for future issuance without stockholder approval.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus constitute forward-looking statements. 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 prospectus. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" 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 prospectus to conform these statements to actual results.

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USE OF PROCEEDS

Our net proceeds from the sale of 3,682,176 shares of common stock in this offering will be approximately $42.3 million after deducting estimated offering expenses and underwriting discounts and commissions. If the over-allotment option is exercised in full, our net proceeds will be approximately $48.7 million. We will not receive any proceeds from the sale of shares by the selling stockholders. However, in order for the selling stockholders to participate in this offering, the selling stockholders are required to exercise all their warrants received in the February 2004 private placement at the closing of this offering. In connection with such exercises, we are allowing such selling stockholders to pay for the exercise of the warrants on a conditional basis such that the exercise price will not be received by us unless and until this offering is complete. The exercise of these warrants will generate net proceeds for us in the amount of approximately $11.1 million.

We currently intend to use the proceeds of this offering to fund the growth of our business and for general corporate purposes, including working capital and to satisfy a litigation settlement of approximately $1.0 million. Proceeds could also be used to acquire products, technologies, content or businesses that are complementary to our business. We have no current plans, agreements or commitments for acquisitions of any businesses, products or technologies.

The amounts that we actually expend for these purposes will depend on a number of factors, including future revenue growth and the amount of cash that we generate from operations. As a result, management will retain broad discretion over the allocation of the net proceeds from this offering. Pending use of the net proceeds of this offering, we intend to invest the net proceeds in accordance with our investment policy guidelines, which provide for the investment of funds in U.S. government securities, money market instruments and corporate bonds.

DIVIDEND POLICY

We have never paid cash dividends on our common stock, and do not anticipate paying any cash dividends for the foreseeable future. We currently intend to retain future earnings, if any, to operate and expand our business.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Prior to this offering, our common stock was quoted on the OTC Bulletin Board under the symbol "MJES." The market for our common stock has often been sporadic, volatile and limited.

Following this offering, our common stock will be quoted on the Nasdaq National Market.

The following table shows the high and low bid quotations for our common stock as reported by the OTC Bulletin Board during the past two fiscal years and our current fiscal year. The amounts below have been adjusted to reflect our 1-for-7 reverse stock split effectuated on December 31, 2004. The prices reflect inter-dealer quotations, without retail markup, markdown or commissions and may not represent actual transactions.

	High	Low
Fiscal Year 2003		
First Quarter	$4.20	$1.05
Second Quarter	$2.80	$1.75
Third Quarter	$3.50	$1.75

Fourth Quarter	$9.10	$2.10
Fiscal Year 2004		
First Quarter	$14.56	$7.07
Second Quarter	$31.36	$9.73
Third Quarter	$34.30	$17.50
Fourth Quarter	$23.66	$12.39
Fiscal Year 2005		
First Quarter (through January 24, 2005)	$17.50	$10.50

On January 24, 2005, we had approximately 312 registered holders of record of our common stock.

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CAPITALIZATION

The table below sets forth our capitalization as of October 31, 2004, as follows:

- on an actual basis;
- on a pro forma basis to give effect to (i) the issuance of 78,283 shares of common stock on November 15, 2004 for the payment of the dividend payable in connection with the 7% convertible preferred stock, (ii) the issuance of 1,171,419 shares of common stock upon the exercise of outstanding warrants on December 22, 2004 resulting in net proceeds of $6.4 million and (iii) the issuance of 71,428 shares of common stock issued upon the exercise of outstanding placement agent warrants on January 7, 2005 for an aggregate exercise price of $500,000; and
- on a pro forma, as adjusted basis to give effect to (i) the pro forma matters referred to above, (ii) the sale of 3,682,176 shares of common stock by us in this offering, after deducting underwriting discounts and commissions and estimated offering expenses, including those incurred by the selling stockholders to be paid by us and (iii) the receipt by us of $11.1 million in net proceeds upon the exercise of warrants to purchase 1,697,131 shares of common stock held by the selling stockholders upon the closing of this offering.

This information should be read together with the sections of this prospectus entitled "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included in this prospectus.

	As of October 31, 2004		
	Actual	Pro forma	Pro forma, as adjusted
	(in thousands, except share data)		
Cash and cash equivalents	$ 4,170	$ 11,070	$ 64,495
Dividend payable in common stock	$ 1,261	$ —	$ —
Stockholders' equity:			

Common stock, $.001 par value; 250,000,000 shares authorized, 15,403,704 shares issued and outstanding, actual; 16,724,834 shares issued and outstanding, pro forma; 22,104,141 shares issued and outstanding, pro forma as adjusted	15	17	22
Additional paid in capital	29,194	37,353	90,773
Accumulated deficit	(15,388)	(15,388)	(15,388)
Accumulated other comprehensive loss	(36)	(36)	$ (36)
Total stockholders' equity	13,785	21,946	$ 75,371
Total capitalization	$ 15,046	$ 21,946	$ 75,371

Unless otherwise indicated, the table above excludes:

- 4,598,571 shares of common stock underlying warrants outstanding with an exercise price of $7.00;
- 526,377 shares of common stock underlying warrants outstanding with an exercise price of $21.00; and
- 1,646,893 shares subject to stock options outstanding with a weighted average exercise price of $17.57.

In addition, the table above also excludes the following:

- 42,855 shares of common stock subject to stock options outstanding with a weighted average exercise price of $14.37 issued subsequent to October 31, 2004; and
- 453,109 shares available for future grant or issuance under our stock option plan, which includes the increased amount reserved for issuance under the plan as consented by our stockholders pursuant to a written consent.

SELECTED CONSOLIDATED FINANCIAL DATA

The following tables summarize certain selected consolidated financial data, which should be read in conjunction with our audited consolidated financial statements and the notes thereto and with management's discussion and analysis of financial condition and results of operations included elsewhere in this prospectus. The selected consolidated financial data presented below for each of the fiscal years in the five-year period ended October 31, 2004 are derived from our audited consolidated financial statements. Our consolidated financial statements for each of the fiscal years in the three-year period ended October 31, 2004, and the auditors' report thereon, are included elsewhere in this prospectus. All financial information presented reflects our results as if we had acquired ConnectivCorp on December 5, 2003 and as though we had effectuated, retroactively at the beginning of the periods presented, a 1-for-7 reverse split of our common stock, which occurred on December 31, 2004.

	Year Ended October 31,				
	2004	2003	2002	2001	2000
	(in thousands except share data)				
Consolidated Statement of Operations Data:					

Net revenues	$ 120,984	$ 46,608	$ 49,688	$ 60,566	$ 46,034
Cost of sales	86,242	30,803	31,992	40,923	33,372
Gross profit	34,742	15,805	17,696	19,643	12,662
Operating expenses					
Product research and development	2,994	2,554	2,887	3,284	3,152
Selling and marketing	13,664	9,931	8,156	5,729	3,168
General and administrative	5,814	3,140	4,742	4,870	4,170
Depreciation and amortization	439	356	368	236	514
Other operating expenses (1)	281	8,564	—	1,500	—
Operating income (loss)	12,112	(8,740)	1,543	4,024	1,658
Interest and financing costs	2,806	2,077	2,093	2,702	1,483
Other non-operating expense (income) (2)	19,068	24	201	1,215	(510)
Income (loss) before income taxes	(9,762)	(10,841)	(751)	107	685
Provision for income taxes	1,424	—	—	—	—
Net income (loss)	$ (11,186)	$ (10,841)	$ (751)	$ 107	$ 685
Net income (loss) attributable to common stockholders (3)	$ (15,388)	$ (10,841)	$ (751)	$ 107	$ 685
Net income (loss) attributable to common stockholders per share:					
Basic and Diluted	$ (1.84)	$ (4.95)	$ (0.34)	$ 0.05	$ 0.31
Weighted average shares outstanding:					
Basic and Diluted	8,385,657	2,189,285	2,189,285	2,189,285	2,189,285

(1) Operating expenses includes (i) for 2004, a charge for an accounts receivable write-off of $577,000 related to the Kay-Bee Toys bankruptcy and $342,000 related to a non-cash compensation charge, and a gain of $1.2 million related to the renegotiation of our 2003 litigation settlement, (ii) for 2003, provisions for loss on impairment of software development costs of $3.7 million and litigation and settlement costs of $4.9 million and (iii) for 2001, a provision for severance of $1.5 million to former employees.

(2) Other non-operating expense (income) includes (i) for 2004, expenses related to the merger with ConnectivCorp of $342,000, an unrealized loss on foreign exchange of $267,000 and a non-cash charge of $18.5 million related to the change in fair value of warrants, (ii) for 2003, an unrealized loss on a foreign exchange contract of $24,000, (iii) for 2002, a loss on an abandoned equity offering of $201,000, (iv) for 2001, a provision for loss on an affiliate indebtedness of $1.2 million, and (v) for 2000, a gain on sale of fixed assets of $510,000.

(3) Includes for 2004, a non-cash charge of $759,000 related to a deemed dividend to the holders of the 7% convertible preferred stock issued in connection with our February 2004 private placement, a preferred stock dividend requirement of $1.3 million payable in common stock, and a $2.2 million non-cash charge related to the fair value of warrants issued in connection with lock-up agreements by certain stockholders.

	As of October 31, 2004		
	Actual	Pro forma(1)	Pro forma as

			adjusted(2)
	(in thousands)		
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 4,170	$ 11,070	$ 64,495
Working capital	8,915	15,815	69,240
Total assets	43,952	50,852	104,277
Dividend payable in common stock	1,261	—	—
Stockholders' equity	13,785	21,946	75,371

(1)The balance sheet data as of October 31, 2004 on a pro forma basis is unaudited and gives effect to (i) the issuance of 78,283 shares of common stock on November 15, 2004 issued in connection with a preferred stock dividend, (ii) the issuance of 1,171,419 shares of common stock upon the exercise on December 22, 2004 of outstanding warrants resulting in net proceeds of $6.4 million and (iii) the issuance of 71,428 shares of common stock issued upon the exercise of outstanding placement agent warrants on January 7, 2005 for an aggregate exercise price of $500,000.

(2)The balance sheet data as of October 31, 2004 on a pro forma as adjusted basis is unaudited and gives effect to (i) the matters referred to in footnote (1) above, (ii) the sale of 3,682,176 shares of common stock by us in this offering, after deducting underwriting discounts and commissions and estimated offering expenses, including those incurred by the selling stockholders to be paid by us and (iii) the receipt by us of net proceeds of $11,083,326 to be received upon exercise of warrants held by the selling stockholders upon the closing of this offering.

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

You should read the following discussion and analysis of our financial condition and results of operations together with "Selected Consolidated Financial Data" and our consolidated financial statements and related notes appearing elsewhere in this prospectus. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this prospectus.

Overview

We are an innovative provider of diversified offerings for digital entertainment platforms. Our offerings include video game titles, video content titles and digital media peripherals and applications, or gadgets. Our diverse products provide us with multiple opportunities to capitalize on the large and growing installed base of digital entertainment platforms and an increasing number of digital entertainment enthusiasts. We publish and distribute titles for all major current-generation platforms, including Nintendo's Game Boy Advance, or GBA, and GameCube, Sony's PlayStation 2, or PS2, Microsoft's Xbox and the personal computer, or PC. We sell our products directly and through resellers primarily to U.S. retail chains, including Best Buy, Electronics Boutique, GameStop, Kmart, Target, Toys "R" Us and Wal-Mart.

On December 5, 2003, Majesco Sales Inc., a privately held company with an 18-year operating history, completed a reverse merger with ConnectivCorp, then a publicly traded company with no active operations. As a result of the merger, Majesco Sales Inc. became a wholly-owned subsidiary of the public company and its sole operating business. All financial information presented reflects the results of Majesco Sales Inc. as if Majesco Sales Inc. had acquired ConnectivCorp on December 5, 2003. Subsequently, we changed the public company's name from ConnectivCorp to Majesco Holdings Inc.

The primary components of our consolidated statement of operations include the following:

Net Revenues. Our revenues are derived from three general types of offerings:

- Games. Our video games consist of "frontline" titles and "value" titles. Frontline titles are premium-priced video games that typically involve higher development and marketing costs. We work with leading development studios to develop our own proprietary titles and we also license rights to well-known properties from third parties. Value titles are typically sold at retail prices below $20 and typically involve comparatively lower development and marketing costs than our frontline titles;
- Videos. Our GBA Video titles utilize our proprietary compression technology that enables users to view up to 45 minutes of color video content with stereo audio on their GBA, using a standard GBA cartridge and with no additional hardware required. We enter into licensing agreements with entertainment industry leaders for GBA Video content; and
- Gadgets. We develop, manufacture and market a variety of digital media peripherals and applications, or gadgets. Our peripheral products and applications for the GBA include headphones, "wireless link" and "wireless messenger." Our stand-alone TV Arcade "plug-and-play" video game systems consist of a firmware-enabled joystick that connects directly to a user's television and plays pre-installed video games without the need for a dedicated console.

Historically, most of our revenues were derived from being a leading distributor of value video game titles. Although sales of value titles will continue to constitute a significant portion of our revenues, we are diversifying our sources of revenue and have introduced or expanded our other offerings. For instance, during fiscal 2004 we launched additional frontline titles, our GBA Video titles and our digital media peripherals and applications. We expect value products to decrease as a

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percentage of our revenues as we generate significantly more revenues from our frontline video games, GBA Video titles and digital media peripherals and applications. The continued diversification of our revenue sources and our revenue growth are dependent upon our ability to provide a wide variety of appealing products at different price points aimed at different demographics. Our revenues are recognized net of reserves for price protection and other allowances. See "Critical Accounting Policies" below.

Cost of Sales. Cost of sales consists of product costs and amortization of software development costs and license fees. A significant component of our cost of sales is product costs. These are comprised primarily of manufacturing and packaging costs of the disc or cartridge media, royalties to the platform manufacturer and manufacturing and packaging costs of digital media peripherals and applications. Currently, cartridge media is substantially more costly than other media and represents a substantial portion of our product costs since most of our units sold to date have been video games and video content for the GBA platform, which utilizes cartridge media. Commencing upon the related product's release, capitalized software development and intellectual property license costs are amortized to cost of sales.

Gross Profit. Our gross profit is directly affected by the mix of revenues from our products. Gross profit margins have the potential to be substantially higher from publishing our frontline titles given the relatively lower manufacturing costs and higher sales prices. If a frontline title is a highly successful "hit" and manufacturing and licensing costs are recouped, economies of scale occur as the incremental sales of a premium-priced game produce greater profitability. Our value titles are generally characterized as having lower gross profit margin potential than frontline titles as a result of their lower sales price. Gross profit margins from our GBA products generally are the lowest of our products given the high manufacturing and licensing costs associated with these products, particularly GBA Video titles. Although we have only recently launched our digital media peripherals and application products, our experience to date has been that gross margins for these products are higher than those for our value video games and GBA Video titles. We believe our overall gross profit and gross profit margins will increase as we increase our sales of frontline video games and digital media peripherals and applications.

Product Research and Development Expenses. Product research and development expenses relate principally to our cost of supervision of the third-party developers of our new video games and the technologies related to GBA Video and digital media peripherals and applications, testing new products and conducting quality evaluations during the development cycle. Costs incurred are employee related, may include equipment and are not allocated to cost of sales. With the expansion of our product offerings, our expenditures for product research and development are expected to increase.

Selling and Marketing Expenses. Selling and marketing expenses consist of marketing and promotion expenses, the cost of shipping products to customers and related employee costs. The largest component of this expense relates to marketing and promotion expenses, which includes certain customer marketing allowances. Marketing and promotion expenses associated with frontline titles are significantly higher than with respect to our other offerings. As we increase the number of our frontline titles and seek to increase awareness of our video content and digital media peripherals and applications, our marketing and promotion expenses will rise accordingly.

General and Administrative Expenses. General and administrative expenses primarily represent employee related costs, including corporate executive and support staff, general office expenses, professional fees and various other overhead charges. We expect that our personnel costs, the largest component of our general and admistrative expenses, will increase as our business continues to grow. Professional fees, including legal and accounting expenses, typically represent the second largest component of our general and administrative expenses. These fees are partially attributable to our required activities as a publicly traded company, such as SEC filings. We expect to incur increased costs for personnel and consultants in connection with our required compliance as a public company with new regulations regarding corporate governance and accounting.

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Interest and Financing Costs. Interest and financing costs are directly attributable to our factoring and our purchase-order financing arrangements. We expect that the proceeds of this offering will enable us to lessen our need to take advances from the factor and our need to use the finance company for letters of credit, and therefore we expect our interest and financing cost to decrease, at least on a temporary basis.

Warrant Accounting and Other Non-Cash Compensation. In accordance with Emerging Issues Task Force Issue 00-19, referred to as EITF 00-19, "Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled in, a Company's Own Stock," we initially accounted for the fair value of $21 million for the warrants issued in connection with our February 2004 private placement as a liability since we would have incurred substantial penalties if we had not complied on a timely basis with the warrantholders' registration rights. We subsequently recorded changes in the fair value of the warrants as non-cash charges or gains on a quarterly basis. The fair value of the warrants was calculated utilizing the Black-Scholes option-pricing model. As a result of changes in the market value of our common stock from the closing date through October 29, 2004, the effective date of the registration statement, we recorded a non-cash charge of $18.5 million for fiscal year 2004 to reflect the associated change in fair value of the warrants during this period. At the effective date of the resale registration statement, the fair value of $39.2 million for the warrants was reclassified to equity. During December 2004, a portion of these warrants were exercised at a reduced exercise price. Accordingly, we will record a non-cash charge of $1.1 million to recognize the exercise of warrants during the first quarter of 2005. The charge will reduce net income attributable to common stockholders in the calculation of earnings per share.

During the year ended October 31, 2004, we also recorded a deemed dividend of $759,000 relating to the beneficial conversion feature attributable to the 7% preferred stock issued in our February 2004 private placement, after deducting the value of the warrants issued. The deemed dividend increased the loss attributable to common stockholders in the calculation of basic and diluted net loss per common share.

In addition, in September 2004, we issued warrants to several stockholders in consideration for their agreement not to dispose of our common stock for a certain period of time. An amount equal to the fair value of such warrants, $2.2 million, was charged to equity in the fourth quarter of fiscal 2004 and increased the loss attributable to common stockholders in the calculation of basic and diluted net loss per common share.

We also granted options to purchase 992,856 shares of common stock to Carl Yankowski in connection with his employment as our Chief Executive Officer in August 2004. A portion of the option grant for 297,857 shares were granted at $7.00, a 64% discount to the market price of our common stock on the date of grant (the balance of the options were granted at or above the then market price). As a result of this issuance, we incurred non-cash compensation expense of $316,000 for the fourth quarter of fiscal year 2004 and will additionally charge opearations $465,000 for each of the succeeding six quarters.

Provision for Income Taxes.   Effective November 1, 2003, we revoked our election to be treated as an S Corporation and we are therefore subject to federal income taxes. We anticipate that our effective tax rate will be approximately 40% in fiscal year 2005.

Critical Accounting Policies

Our discussion and analysis of the financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from these estimates under different assumptions or conditions.

We have identified the policies below as critical to our business operations and the understanding of our financial results. The impact and any associated risks related to these policies on our business operations is discussed throughout management's discussion and analysis of financial condition and results of operations where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies see Note 3 to the consolidated financial statements included elsewhere in this prospectus.

Reserves for Price Protection and Other Allowances. We derive revenue from the sale of packaged video game software designed for play on consoles such as PlayStation 2, Xbox and GameCube, and hand-held game devices, principally the GBA. We generally sell our products on a no-return basis, although in certain instances, we may provide price protection or other allowances on certain unsold products in accordance with industry practices. Price protection, when granted and applicable, allows customers a partial credit with respect to merchandise unsold by them. Revenue is recognized net of estimates of these allowances. Sales incentives and other consideration that represent costs incurred by us for assets or services received, such as the appearance of our products in a customer's national circular advertisement, are reflected as selling and marketing expenses. We estimate potential future product price protection and other discounts related to current period product revenue. Generally our price protection for frontline titles is higher than our value titles. Our reserves for price protection and other allowances fluctuate over periods as a result of a number of factors including analysis of historical experience, current sell through of retailer inventory of our products, current trends in the video game market, the overall economy, changes in customer demand and acceptance of our products and other related factors. However, actual allowances granted could materially exceed our estimates as unsold products in the distribution channels are exposed to rapid changes in consumer preferences, market conditions or technological obsolescence due to new platforms, product updates or competing products. For example, the risk of requests for allowances may increase as consoles pass the midpoint of their lifecycle and an increasing number of competitive products heighten pricing and competitive pressures. While management believes it can make reliable estimates regarding these matters, these estimates are inherently subjective. Accordingly, if our estimates change, this will result in a change in our reserves, which would impact the net revenues and/or selling and marketing expenses we report. For the years ended October 31, 2004, 2003 and 2002 we provided allowances for future price protection and other allowances of $6.7 million, $5.2 million and $13.1 million, respectively. The fluctuations in the provisions reflected our estimates of future price protection based on the factors discussed above. We do not have significant exposure to credit risk as the factor generally buys our receivables without recourse; however, during the year ended October 31, 2004, we recorded a charge for an accounts receivable write-off of $577,000 as a result of the January 2004 bankruptcy filing of Kay-Bee Toys, because sales to this customer were not factored.

Software development costs and intellectual property licenses. Software development costs include milestone payments made to independent software developers under development arrangements. Software development costs are capitalized once technological feasibility of a product is established and it is determined that such costs should be recoverable against future revenues. For products where proven game engine technology exists, this may occur early in the development cycle. Technological feasibility is evaluated on a product-by-product basis. Amounts related to software development that are not capitalized are charged immediately to product research and development costs. Intellectual property license costs represent license fees paid to intellectual property rights holders for use of their trademarks or copyrights in the development of our products. Minimum guaranteed royalty payments for intellectual property licenses are initially recorded as an asset (prepaid license fee), and a current liability, (accrued royalties payable) at the contractual amount upon execution of the contract when no significant performance remains with the licensor. Capitalized software development costs classified as non-current relate to titles for which we estimate the release date to be more than one year from the balance sheet date.

Commencing upon the related product's release, capitalized software development and intellectual property license costs are amortized to cost of sales based upon the higher of (i) the ratio of current revenue to total projected revenue or (ii) the straight-line method. The amortization period is usually no longer than one year from the initial release of the product. The recoverability of capitalized software development costs and intellectual property licenses is evaluated based on the expected performance of the specific products for which the costs relate. The following criteria are used to evaluate expected product performance: historical performance of comparable products using comparable technology; orders for the product prior to its release; and estimated performance of a sequel product based on the performance of the product on which the sequel is based. As of October 31, 2003, we charged operations $3.2 million to write-off all capitalized costs related to the development of a video game that we had determined would not be commercially viable and for which development was stopped. We also expensed $500,000 to recognize impairments in the carrying value originally capitalized in connection with recording the minimum guaranteed payments for two licensed video games for which orders received were significantly below expectations.

Accounting for Stock-Based Compensation. As permitted under SFAS No. 123, "Accounting for Stock-Based Compensation," we provide quarterly and annual disclosures of the impact to earnings per share if stock options were expensed. We estimate that if stock options were expensed in accordance with SFAS 123, the impact for fiscal 2004 would have been an increase in net loss of $1.9 million. The Financial Accounting Standards Board, or FASB, issued SFAS 123R, "Share-Based payment," which will require all companies to record compensation costs for all share-based payments, including employee stock options at fair value. This statement will be effective for our quarter beginning August 1, 2005.

Results of Operations

The following table sets forth our results of operations expressed as a percentage of total revenues:

	Year Ended October 31,		
	2004	2003	2002
Net revenues	100.0%	100.0%	100.0%
Cost of sales			
Product costs	55.5	54.0	52.7
Software development costs and license fees	15.8	12.1	11.7
Gross profit	28.7	33.9	35.6
Operating expenses			
Product research and development	2.5	5.5	5.8
Selling and marketing	11.3	21.3	16.4
General and administrative	4.8	6.7	9.6
Depreciation and amortization	0.4	0.8	0.7
Other operating (income) expense	(0.3)	18.4	—
Operating income (loss)	10.0	(18.8)	3.1
Interest and financing costs and other non-operating expenses	18.1	4.5	4.6
Loss before income taxes	(8.1)	(23.3)	(1.5)
Provision for income taxes	1.2	—	—
Net loss	(9.2)%	(23.3)%	(1.5)%

Year ended October 31, 2004 versus year ended October 31, 2003

Net Revenues. For 2004 net revenues increased to $121 million from $46.6 million in the prior year. The significant increase in net revenues is primarily due to the successful launch of our GBA Video titles and an increase in sales of GBA value games as a result of new titles and increased demand.

Gross Profit. For 2004 gross profit increased to $34.7 million from $15.8 million for the prior year while the gross profit margin decreased to 28.7% from 33.9% for the prior year. This decrease is

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largely attributable to the higher sales mix of GBA value games and GBA Video titles, both of which are sold at price points significantly lower than frontline games while having higher product costs. Also contributing to the lower profit margin are the higher content acquisition costs associated with GBA Video.

Product Research and Development Expenses. For 2004 product research and development expenses increased to $3 million from $2.6 million for the prior year. The increase over the prior year is due primarily to higher employee costs related to quality assurance in connection with the launch of GBA Video and evaluation of the increased number of video games and other products currently in development. Product research and development expenses as a percentage of net revenues decreased to 2.5% for 2004 from 5.5% for the prior year principally as a result of the increased net revenues in 2004.

Selling and Marketing Expenses. For 2004 selling and marketing expenses increased 37.5% to $13.7 million from $9.9 million for the prior year. This increase is partially due to higher variable costs, principally freight, fulfillment and sales commissions, which increase proportionately as sales volume increases. These variable expenses increased 78% or $1.4 million to $3.2 million in 2004 from $1.8 million for the prior year. Marketing expenditures also increased 40% to $6.3 million in 2004, from $4.5 million in 2003. Our marketing expenditures exclude the direct advertising campaign paid for by Nintendo in support of the GBA Video products in 2004. We intend to continue to significantly increase our marketing expenditures in fiscal year 2005 in order to supplement Nintendo's holiday television advertising program in support of GBA Video products, to promote the launch of new frontline video games and to build awareness of our new digital media peripherals and applications products. Selling and marketing expenses as a percentage of net revenues decreased from 21.3% for the prior year to 11.3% in the current year, principally as a result of the increased net revenues in the current year.

General and Administrative Expenses. For 2004 general and administrative expenses increased to $5.8 million from $3.1 million for the same period in the prior year. This increase is attributable primarily to additional employee related costs, professional fees, insurance and other costs incurred as a result of being a public company. General and administrative expenses as a percentage of net revenues decreased to 4.8% for 2004 from 6.7% for the same period in the prior year principally as a result of the increased net revenues in the current year.

Depreciation and Amortization Expenses. For 2004 depreciation and amortization expenses remained relatively stable at $439,000 compared to $356,000 for the prior year and relates primarily to office equipment purchases.

Other Operating Expenses (Income). For 2004 we recorded other income of $1.2 million as a result of the renegotiation of a litigation settlement (see Note 8 to consolidated financial statements), an accounts receivable write-off of $577,000 related to the Kay-Bee Toys bankruptcy, and non-cash compensation charges of $316,000 related to a below market stock option grant in connection with an employment agreement. For 2003 we recorded charges of $4.9 million and $3.7 million related to litigation and settlement expenses and impairment of capitalized development costs, respectively.

Operating Income. For 2004 operating income was $12.1 million versus an operating loss of $8.8 million in the prior year. The increase in operating income is principally due to the release of our GBA Video titles and increased sales of the GBA video game value titles. For 2004 operating income as a percentage of net revenue was 10% compared to a loss for the prior year.

Interest and Financing Costs. For 2004 interest and financing costs increased to $2.8 million from $2.1 million for the prior year due to increased volumes subject to purchase order financing as well as an increase in factoring costs related to the higher level of sales. The increased level of borrowings as well as the increased volumes of purchase order financing was partially offset by the reduction in interest rates negotiated during the year with the factor.

Other Non-Operating Expenses. In February 2004, we completed a private placement of units consisting of preferred stock and warrants. In accordance with EITF 00-19, we initially accounted for the fair value of $21 million for the warrants as a liability since we would have incurred substantial

penalties if we did not timely comply with the warrantholders' registration rights. The fair value of the warrants was calculated utilizing the Black-Scholes option-pricing model. As a result of changes in the market value of our common stock from the closing date through October 29, 2004, the effective date of the registration statement, we recorded a non-cash charge of $18.5 million to reflect the associated change in fair value of the warrants during the period. At the effective date of the resale registration statement, the fair value of the warrants of $39.2 million was reclassified to equity pursuant to paragraph 10 of EITF 00-19.

For 2004 we recorded an unrealized loss of $267,000 relating to a foreign exchange contract (see Note 15 to consolidated financial statements). A similar charge of $24,000 was recorded in the prior year. Merger costs of $342,000 were incurred by us in the first quarter of 2004 and consist primarily of professional fees and are non-recurring and there was no corresponding charge in the prior year.

Income Taxes. Effective November 1, 2003, we revoked our election to be treated as an S corporation and we are therefore subject to federal income taxes. Although we have reported a loss for financial reporting purposes for 2004, for income tax purposes we will report taxable income. Accordingly, the Company has provided a provision for taxes for 2004. A reconciliation between the statutory and effective tax rates is included in Note 11 of the audited consolidated financial statements.

Net Loss. For 2004 we generated a net loss of $11.2 million principally as a result of the $18.5 million charge related to the change in fair value of warrants issued in the private placement, as compared to a net loss of $10.8 million last year. The 2004 net loss attributable to common stockholders of $15.4 million includes the net loss after taxes of $11.2 million, a $759,000 non-cash charge related to a deemed dividend to the holders of the 7% convertible preferred stock issued in connection with our February 2004 private placement, a preferred stock dividend requirement of $1.2 million which is payable in common stock and a $2.2 million charge to reflect the fair value of the warrants issued in connection with the lock-up agreement. The deemed dividend represents the fair value of the beneficial conversion feature of the 7% preferred stock less the fair value of the warrants issued.

Year ended October 31, 2003 versus year ended October 31, 2002

Net Revenues. For 2003 net revenues decreased 6.2% to $46.6 million from $49.7 million for the prior year. The overall decrease in net revenues in 2003 reflects a lower number of new video game titles launched, decreasing from

19 in 2002, which included the launch of our highly successful frontline title BloodRayne, to seven in 2003. The impact of the decrease in the number of titles launched was partially offset by the lower mix of frontline titles for the year ended October 31, 2003 versus October 31, 2002, which resulted in lower provisions for sales allowances in this period. For the year ended October 31, 2003 these provisions amounted to $5.2 million compared to $13.1 million for the year ended October 31, 2002. In fiscal year 2002, we also assumed price protection obligations of another publisher that resulted in an increase to the provision of $4.0 million. There was no similar transaction in 2003.

Gross Profit.   For 2003 gross profit decreased 10.7% to $15.8 million from $17.7 million for the prior year. The $1.9 million decrease is due to the lower sales volume coupled with an increase in the percentage of sales related to value priced products to 90% of total units in 2003 from 60% in 2002. Accordingly, gross profit margins decreased from 35.6% in the year ended October 31, 2002 to 33.9% in the comparable 2003 period.

Product Research and Development Expenses.   For 2003 product research and development expenses decreased 11.5% to $2.5 million from $2.9 million for the prior year. This decrease is the result of the full year impact in fiscal year 2003 of management's decision in 2002 to utilize the services of external development teams, thereby enabling us to maintain a smaller staff and to lower employee related costs. Product research and development expenses as a percentage of net revenues remained relatively constant at 5.5% for 2003, from 5.8% for the prior year.

Selling and Marketing Expenses.   For 2003 selling and marketing expenses increased 21.7% to $9.9 million from $8.2 million for the prior year. Factors causing the increase include an increase in

promotion expenses related to $1.4 million in media support for the retail release of BloodRayne during the 2002 holiday season, and $300,000 of additional costs attributable to our London office, which was in operation for a full year in the 2003 period compared to a partial year in the 2002 period. Selling and marketing expenses increased as a percentage of net revenues to 21.3% for 2003 from 16.4% in the comparable 2002 period.

General and Administrative Expenses.   For 2003 general and administrative expenses decreased 33.7% to $3.1 million from $4.7 million for the prior year. The 2002 period included $1.3 million of professional fees, including costs related to litigation subsequently settled in 2003, and $683,000 for salary, expenses and severance expenses for a former executive officer. General and administrative expenses as a percentage of net revenues decreased to 6.7% for 2003 from 9.6% in the comparable 2002 period.

Depreciation and Amortization.   For 2003 and 2002 depreciation and amortization remained relatively constant at approximately $360,000.

Other Operating Expenses.   For 2003 other operating expenses include provisions for losses related to litigation and asset impairments. Litigation and settlement costs of $4.9 million relate to the Atari settlement and other litigation (see Note 8 to the audited consolidated financial statements). The loss on impairment of software development costs of $3.7 million represents amounts deemed unrecoverable from current or future sales.

Operating Income (Loss).   For 2003 operating income decreased $10.3 million to an operating loss of $8.8 million from an operating income of $1.5 million for the prior year. The decrease is primarily due to the aforementioned litigation settlement expenses and asset impairment.

Interest and Financing Costs. For 2003 and 2002 interest and financing costs remained relatively constant at $2.1 million.

Net Loss. The net loss for the year ended October 31, 2003 increased by $10.1 million from the prior year to $10.8 million as a result of the items discussed above.

Quarterly Operating Results

Our quarterly net revenues and operating results have varied in the past and can be expected to vary in the future, due to numerous factors, several of which are not under our control. Our business also has experienced, and is expected to continue to experience seasonality. Historically our net sales have been significantly higher during the fourth fiscal quarter because of increased consumer demand during the year-end holiday season. Other factors that cause fluctuations include the timing of our release of new titles, the popularity of both new titles and titles released in prior periods, changes in the mix of titles with varying gross margins, the timing of customer orders and fluctuations in consumer demand for gaming platforms. Accordingly, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

The following table is a comparative breakdown of our unaudited quarterly results for the immediately preceding eight quarters:

	For the Three Months Ended							
	Jan. 31, 2003	Apr. 30, 2003	July 31, 2003	Oct. 31, 2003	Jan. 31, 2004	Apr. 30, 2004	July 31, 2004	Oct. 3 2004
	(in thousands, except per share data)							
t revenues	$ 13,413	$ 13,731	$ 3,995	$ 15,469	$ 24,619	$ 17,049	$ 33,971	$ 45,34
st of sales	8,082	9,121	2,460	11,140	17,123	11,613	26,892	30,61
oss profit	5,331	4,610	1,535	4,329	7,496	5,436	7,079	14,73
erating costs and penses:								
oduct research and velopment	709	519	633	693	574	689	696	1,03
lling and marketing	3,208	2,774	1,727	2,222	2,798	2,239	2,929	5,69
neral and ministrative	1,063	833	944	300	1,108	1,280	1,436	1,99
preciation and ortization	84	94	89	89	90	97	124	12
her operating expenses come) (1)	—	—	—	8,564	577	—	(1,174)	31
erating income (loss)	267	390	(1,858)	(7,539)	2,349	1,131	3,068	5,56
her expenses (2)	464	613	346	678	1,292	49,639	(18,216)	(10,84
ome (loss) before ome taxes	(197)	(223)	(2,204)	(8,217)	1,057	(48,508)	21,284	16,40
	—	—	—	—	—	489	759	17

ovision for income es								
t income (loss)	$ (197)	$ (223)	$ (2,204)	$ (8,217)	$ 1,057	$ (48,997)	$ 20,525	$ 16,22
t income (loss) ributable to common ckholders (3)	$ (197)	$ (223)	$ (2,204)	$ (8,217)	$ 1,057	$ (50,095)	$ 20,055	$ 13,59
t income (loss) ributable to common ckholders per share:								
sic	$ (0.09)	$ (0.10)	$ (1.00)	$ (3.75)	$ 0.25	$ (8.35)	$ 1.74	$ 1.1
uted	$ (0.09)	$ (0.10)	$ (1.00)	$ (3.75)	$ 0.10	$ (8.35)	$ 1.06	$ 0.7
eighted average shares standing								
sic	2,189,285	2,189,285	2,189,285	2,189,285	4,247,510	5,995,961	11,551,376	11,695,8
uted	2,189,285	2,189,285	2,189,285	2,189,285	10,162,339	5,995,961	18,842,607	18,321,1

(1)Other operating expenses (income) includes provisions for litigation and settlement expenses of $4.9 million and loss on impairment of capitalized software development costs of $3.7 million in the three months ended October 31, 2003, a charge for an accounts receivable write-off of $577,000 related to the Kay-Bee Toys bankruptcy in the three months ended January 31, 2004, a gain of $1.2 million as a result of the renegotiation of the litigation settlement in the three months ended July 31, 2004 and non-cash compensation charges of $26,000 and $316,000 for the three months ended July 31, 2004 and October 31, 2004, respectively.

(2)Other expenses (income) include:

	For the Three Months Ended							
	Jan. 31, 2003	Apr. 30, 2003	July 31, 2003	Oct. 31, 2003	Jan. 31, 2004	Apr. 30, 2004	July 31, 2004	Oct. 31, 2004
	(in thousands, except per share data)							
Unrealized (gain) loss on foreign exchange	—	—	—	$ 24	$ 315	$ (233)	$ 13	$ 172
Merger costs	—	—	—	—	342	—	—	—
Interest and financing costs, net	464	613	346	654	635	667	625	879
Change in fair value of warrants	—	—	—	—	—	49,205	(18,854)	(11,892)
	$464	$613	$346	$678	$1,292	$49,639	$ (18,216)	$ (10,841)

(3)Net income (loss) attributable to common stockholders includes a preferred stock dividend requirement payable in common stock of $339,000, $470,000 and $452,000 for the three month periods ended April 30, July 31, and October 31, 2004, respectively, a $759,000 non-cash charge related to a deemed dividend to the holders of the 7% convertible preferred stock issued in connection with our February 2004 private placement and a $2.2 million non-cash charge related to the fair value of warrants issued in connection with a lock-up agreement in the three months ended October 31, 2004.

Liquidity and Capital Resources

Historically, we have met our capital needs through our factoring and purchase order financing arrangements, loans from related persons and advances from customers. In addition, in February 2004, we completed a private placement that provided us $21.2 million in net proceeds. Furthermore, in December 2004 we received net proceeds of $6.4 million from the excercise of a portion of the warrants issued in the February 2004 private placement and $500,000 upon the exercise of placement agent warrants in January 2005.

While our cash and cash equivalents balance was $4.2 million at October 31, 2004, we expect continued volatility in the use and availability of cash due to the seasonality of our business, receivables collections and working capital needs necessary to finance our business and growth objectives. Although there can be no assurance, management believes that there will be sufficient capital resources from our operations, and our factoring and purchase order financing arrangements, in order to finance our requirements for development, production, marketing, the purchases of equipment, and the acquisition of intellectual property rights for future products for the next twelve months.

If we are unable to generate sufficient positive cash flow from operations, if our seasonal borrowing needs exceed our current borrowing availability, or if unforeseen events occur that would require additional funding, we may require additional equity or debt financing and/or loans from financial institutions. However, there can be no assurance that these funds will be available to us on acceptable terms, if at all. Failure to obtain such financing or obtaining it on terms not favorable to us could have a material adverse effect on future operating prospects and continued growth. If we are unable to secure additional financing, we may need to curtail our development activities, which could impact the expansion of our business. Management believes it can operate under a curtailed operating plan if financing is not available.

Private Placement Proceeds.   In connection with the February 2004 private placement, we issued units consisting of preferred stock and warrants resulting in $25.8 million in gross proceeds from a group of institutional and accredited investors. The net proceeds were $21.2 million after deducting the related fees and other expenses.

We have used substantially all of the proceeds of the private placement. The amounts were used principally for working capital purposes, including milestone payments for software development costs and minimum payments for intellectual property rights, satisfaction of certain liabilities arising from our merger with ConnectivCorp and a litigation settlement. We also used the proceeds to repay $2.5 million of loans previously made to us by two of our executive officers who are also stockholders.

With respect to the warrants issued in our February 2004 private placement, in December 2004 we received net proceeds of $6.4 million from the exercise of a portion of such warrants at a reduced exercise price of $5.95 per share, which were originally exercisable at $7.00 per share. We also received proceeds of $500,000 upon exercise of placement agent warrants on January 7, 2005 and we will receive net proceeds of approximately $11.1 million in connection with the exercise of 1,697,131 warrants that are held by the selling stockholders upon the completion of this offering. Upon completion of this offering, any warrants issued in our February 2004 private placement that have not been previously exercised may be called at a price of $0.007 per share at the end of any applicable lock-up period. To avoid their warrants being called, holders may exercise such warrants, which would result in net proceeds to us of approximately $6.7 million. These funds would be in addition to the $6.4 million in net proceeds received by us from the exercise of warrants in December 2004 and the approximately $11.1 million proceeds to be received upon exercise of the warrants held by the selling stockholders at the closing of this offering.

Factoring and Purchase Order Financing.   We do not have any bank debt. To satisfy our liquidity needs, we factor our receivables. We also utilize purchase order financing through the factor and through a finance company to provide funding for the manufacture of our products. In connection with these arrangements, the finance company and the factor have a security interest in substantially all of our assets. In addition, certain of our officers provide personal guarantees in connection with these arrangements.

Under the terms of our factoring agreement, we assign our accounts receivable to the factor. The factor, in its sole discretion, determines whether or not it will accept a receivable based on its assessment of its credit risk. Once a receivable is accepted by the factor, the factor assumes substantially all of the credit risk associated with the receivable. The factor is required to remit payments to us for the assigned accounts receivable in accordance with the terms of the assigned invoice, regardless of whether the factor receives payment on the receivable, so long as the customer does not have a valid dispute related to the invoice. The amount remitted to us by the factor equals the invoiced amount adjusted for allowances and discounts we have provided to the customer. The factor charges 0.5% of invoiced amounts for these credit and collection services.

In addition, we may request that the factor provide us with cash advances based on our accounts receivable and inventory. The factor may either accept or reject our request for advances in its discretion. Amounts to be paid to us by the factor for any assigned receivable are offset by any amounts previously advanced by the factor. As of October 31, 2004, the factor was advancing 80% of the eligible receivables and also is advancing 50% of inventory, up to a maximum of $1 million. Total advances under the factor arrangement, including letters of credit for purchase order financing (see below) is limited to $30 million in the aggregate. The interest rate for advances taken is prime plus 1%.

We utilize purchase order financing arrangements in order to enable us to provide letters of credit necessary for the manufacture of our products. Manufacturers require us to present a letter of credit in order to manufacture the products required under a purchase order. Currently, we utilize letters of credit from a finance company, which charges 3.3% of the purchase order amount for each transaction for 60 days. Our factor also provides purchase order financing at a cost of 0.5% of the purchase order amount for each transaction for 30 days. Additional charges are incurred under both arrangements if letters of credit remain outstanding in excess of the original time period.

Advances From Customers. On a case by case basis, distributors and other customers have agreed to provide us with cash advances on their orders. These advances are then applied against future sales to these customers. In exchange for these advances, we offer these customers beneficial pricing or other considerations.

Commitments and Contingencies. The following table summarizes our minimum guarantees and other contractual obligations as of October 31, 2004:

		Payments due by period		
	Total of Payments	Less than one year	1 - 3 Years	3 - 5 Years
		(in thousands)		
Contractual obligations				
Operating leases	$ 2,026	$ 572	$ 1,190	$ 264
Software development (1)	30,192	23,577	6,615	—
Licensing (2)	1,295	1,295	—	—
	33,513	25,444	7,805	264
Commercial obligations				
Letters of credit (3)	6,398	6,398		
Total obligations	$ 39,911	$ 31,842	$ 7,805	$ 264

(1)Payable only upon acheivement of milestones.
(2)Minimum liability for intellectual property rights to be incurred upon performance of the licensor.
(3)Arising under purchase order assignments for inventory purchases.

As of October 31, 2004, we did not have any material commitments with respect to capital expenditures.

On September 1, 2004, Entertainment Finance International, LLC, or EFI, commenced a breach of contract action against us relating to an outstanding warrant held by EFI, issued by ConnectivCorp prior to the merger. Pursuant to a settlement agreement dated January 10, 2005, we agreed to pay $250,000 to EFI and, if we conclude this offering by February 21, 2005, an additional $985,000 from the offering proceeds. If we do not complete this offering by February 21, 2005, we can either elect to pay an additional $985,000 or deliver additional shares of our common stock to EFI with a value of

$1,235,000. The liability will be recorded as an adjustment to "additional paid in capital" since the alleged obligation existed prior to the ConnectivCorp merger.

In the opinion of management, upon advice of counsel, we have made adequate provision in our consolidated financial statements for potential liabilities, if any, arising from litigation settlements and other claims. However, the costs and other effects of pending or future litigation, governmental investigations, legal and administrative cases and proceedings (whether civil or criminal), settlements, judgments and investigations, claims and changes in those matters, and developments or assertions by or against us relating to intellectual property rights and intellectual property licenses, could have a material adverse effect on our business, financial condition and operating results.

Cash Flows

Cash and cash equivalents were $4.2 million at October 31, 2004 compared to $314,000 at October 31, 2003. The proceeds from the private placement in February 2004 of $21.2 million were used principally for working capital purposes, including milestone payments for software development costs and minimum payments for intellectual property rights, satisfaction of certain liabilities arising from our merger with ConnectivCorp, a litigation settlement and repayment of a portion of a loan from executive officers.

Operating Cash Flows. For the year ended October 31, 2004, we used $18.9 million of cash in operating activities. Our net loss attributable to common stockholders of $11.2 million was principally attributable to the $18.5 million charge for the change in fair value of the warrants less a gain of $1.2 million from the renegotiation of a litigation settlement, which were both non-cash items. Our cash usage was attributable to (i) the increase in due from factor of $8.9 million reflecting higher receivables from customers net of advances from the factor, (ii) an increase in inventory of $1.8 million, (iii) a decrease in advances from customers for prepayments of $9.5 million as a result of our fulfillment of their related orders in the first quarter, (iv) increased expenditures for capitalized software development and prepaid license costs of $11.7 million for video games in development, as well as royalty advances to content providers for GBA Video, net of amounts expensed during the period and (v) payments of $5.5 million related to a settlement obligation. This was partially offset by increases in cash attributable to an increase in accounts payable and accrued expenses of $11.8 million, reflecting the significant increased level of operations in the fiscal 2004 fourth quarter.

During the year ended October 31, 2003, cash of $2.9 million was used by operating activities. Our net loss of $10.8 million was principally attributable to litigation settlements of $4.9 million and a loss on impairment of capitalized software development costs of $3.7 million, which are non-cash charges. Our cash usage was primarily attributable to an increase in inventory of $8.3 million consisting primarily of new titles to be launched in the first quarter of fiscal 2004, and an increase in capitalized software development costs of $2.3 million related to first quarter 2004 releases as well as video games already in development for future release. This usage of cash was partially offset by the increase in advances from customers of $7.5 million and a decrease in the amounts due from factor during the period due to lower sales volume in the fourth quarter of 2003 versus the prior year, which generated $2.9 million of cash.

During the year ended October 31, 2002, $602,000 was provided by operating activities. The increase in cash was attributable to a decrease in inventory of $4.9 million and other increases in working capital aggregating $1.7 million, offset by the net loss of $751,000 incurred in the period, the increase in due from factor of $1.7 million reflecting higher receivables from customers, net of advances from the factors, and increases in capitalized software development costs and prepaid license fees of $2.9 million attributable to scheduled 2003 releases and an increase in prepaid expenses of $1.0 million attributable to prepaid media time buys related to the BloodRayne release.

Investing Cash Flows. Cash used in investing activities during the years ended October 31, 2004, 2003 and 2002 are principally related to purchases of computer equipment of $319,000, $152,000 and $297,000, respectively.

Financing Cash Flows. Net cash generated from financing activities for the year ended October 31, 2004 was $23.1 million. The increase is attributed to the $21.2 million in net proceeds from the

February 2004 private placement, $3.7 million in additional inventory financing and a loan from a related party of $1 million, which were partially offset by the repayment of $2.8 in loans from stockholders and an officer.

During the year ended October 31, 2003, $2.7 million was provided by financing activities primarily as a result of loan proceeds from inventory financings and from stockholders of $2.6 million and $2.3 million, respectively, partially offset by the repayment of a bank loan of $2.4 million.

During the year ended October 31, 2002, $284,000 was used for financing activities to repay inventory financing of $91,000, pay capital lease obligations of $38,000 and a distribution to stockholders of $374,000, partially offset from loan proceeds from the finance company of $183,000 and a loan from stockholders of $36,000.

2005 Outlook

For fiscal 2005 we expect to report $175 to $185 million in net revenues with operating income of $16 to $18 million. This guidance anticipates increases in net revenues from all of our product groupings and anticipates improvement in the profitability from video games, while taking into consideration planned increases in product development and marketing efforts for all of our products. In the opinion of management, this guidance does not give recognition to the impacts of certain strategic opportunities that we are considering such as the proceeds from this offering.

These expectations are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and must be viewed in light of the discussion under the caption "Special Note Regarding Forward-Looking Statements" on page 13. Investors are cautioned not to place undue reliance on these expectations, which are speculative in nature. Our actual results may differ materially from these expectations due to various risks including, without limitation those identified under "Special Note Regarding Forward-Looking Statements" and "Risk Factors."

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various market risks, including the changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from changes in market rates and prices. Foreign exchange contracts used to hedge foreign currency exposure are subject to market risk. We do not enter into derivatives or other financial instruments for trading or speculative purposes. As of October 31, 2004, we had an outstanding foreign currency forward exchange contract to exchange 2.4 million euros into $2.8 million which expires March 31, 2005 and, accordingly, recorded as a liability (in accounts payable and accrued expenses) an unrealized loss of $267,000.

BUSINESS

Introduction

We are an innovative provider of diversified offerings for digital entertainment platforms. Our offerings include video game titles, video content titles and digital media peripherals and applications. Our diverse products provide us with multiple opportunities to capitalize on the large and growing installed base of digital entertainment platforms and an increasing number of digital entertainment enthusiasts. We sell our products directly and through resellers primarily to U.S. retail chains, including Best Buy, Electronics Boutique, GameStop, Kmart, Target, Toys "R" Us and Wal-Mart. We have developed our retail and distribution network relationships over our 18-year history.

We provide offerings for all major current-generation interactive digital entertainment hardware platforms, including Nintendo's Game Boy Advance, or GBA, and GameCube, Sony's PlayStation 2, or PS2, Microsoft's Xbox and the personal computer, or PC. We are also developing offerings for next-generation home game consoles, including Sony's PlayStation 3, Microsoft's Xbox 2 and next-generation portable handheld game devices, including Nintendo's DS and Sony's PSP.

Our video game titles are targeted at various demographics at a range of price points, from lower-priced "value" titles to premium-priced "frontline" titles. Our value titles include proprietary properties, such as Quad: Desert Fury and Texas Hold 'Em, and well-known licensed properties, such as Frogger's Adventure and Pac-Man Collection. We expect to continue to release new value titles on a regular basis. Our frontline titles include BloodRayne, which has sold more than 600,000 units worldwide, and its sequel, BloodRayne 2, which was released in October 2004. We collaborate and enter into agreements with leading content providers and video game development studios for the development of our frontline titles. We expect to expand our frontline titles by releasing several new titles in 2005, including Advent Rising, which is expected to be the first in a trilogy of epic science fiction games developed in collaboration with award-winning science fiction author Orson Scott Card, Jaws, which is based on the well-known classic film, and Psychonauts, which is being developed by Double Fine Productions, a studio founded and managed by award-winning game designer Tim Schafer.

Our GBA Video content titles, which utilize our proprietary video compression technology, allow GBA users to view up to 45 minutes of video content on each of our GBA Video cartridges. Nintendo's GBA North American installed base was approximately 29 million units as of September 2004, according to Nintendo. Since the retail launch of our GBA Video titles in May 2004, we have released more than 20 of these titles and sold more than three million units.

Our GBA Video cartridges were the first such products sold, and we are currently the only third party to have obtained approval from Nintendo to sell GBA Video products. We offer a variety of GBA Video titles today that are primarily targeted at the youth market and are based on popular Cartoon Network, Disney, FUNimation and Nickelodeon characters, such as Code Name: Kids Next Door, Dragon Ball GT, Fairly OddParents, Kim Possible, Lilo & Stitch and SpongeBob SquarePants. We intend to actively pursue licenses for new, top-quality video content, introduce new GBA video cartridges that contain up to 90 minutes of video and expand our product line to include titles appealing to a broader demographic market.

We design, manufacture and market a line of innovative digital media peripherals and applications, including:

- GBA wrap-around style headphones – enables private listening by plugging directly into the GBA port;
- GBA wireless link application – allows multiple GBA users to play untethered with and against each other from up to 10 feet away;
- GBA wireless messenger application – allows GBA users to send instant text messages and email to other GBA users from up to three miles away in open settings; and

- Stand-alone TV Arcade "plug-and-play" video game systems – firmware-enabled joysticks that connect directly to a user's television and play pre-installed video games without the need for a dedicated home game console.

We are the only third party that Nintendo has approved to sell GBA headphones and we believe we are currently the only seller of wireless applications for the Nintendo GBA. Our GBA headphones were launched in May 2004 and our GBA wireless applications and stand-alone TV Arcade "plug-and-play" video game systems were launched during the 2004 holiday season. Since their launch, we have sold more than 800,000 TV Arcade "plug-and-play" products.

Industry Background

The digital entertainment product industry is comprised of video game hardware platforms, video game software, video content and digital media peripherals and applications. Within this industry, worldwide sales of video game hardware and video game software were approximately $23 billion in 2003 and are expected to grow to over $31 billion in 2009, according to DFC Intelligence.

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 mob