

MAJESCO ENTERTAINMENT CO
Form 10-K
January 29, 2008

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

FORM 10-K

(Mark One)

Annual

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

For the fiscal year ended October 31, 2007

or

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

For the transition period from to

Commission File No. 000-51128

MAJESCO ENTERTAINMENT COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE

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

160 Raritan Center Parkway

Edison, New Jersey 08837

(Address of principal executive office)

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

filer Accelerated filer Non-accelerated filer Large accelerated

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

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

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

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

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Item 1. Business.

Forward-looking Statements

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

Introduction

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

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

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

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

Revised Business Model Update

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

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

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

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

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

Corporate Background

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

Industry Overview

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

Video Game Hardware Platforms

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

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

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

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

Video Game Software

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

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

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

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

Peripherals

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

Strategy

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

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

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

Leverage our long-term success in the value category.

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

Strategically pursue alternative distribution channels for existing and new products.

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

Increase our market share in Europe and Pacific Rim territories.

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

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

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

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

Products

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

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

Games

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

Value Titles

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

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

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

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

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

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

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

			Selected
Titles	Platform	Launch Date	
BloodRayne	Xbox, PS2, GC, PC	October 2002	BloodRayne 2 Xbox, PS2, PC
October 2004 Advent Rising	Xbox, PC	May 2005	Psychonauts Xbox, PS2, PC
April, July 2005 Teen Titans	GBA	October 2005	Infected PSP
November 2005 Aeon Flux	Xbox, PS2	November 2005	Teen Titans GBA
February 2006 Age of Empires: The Age of Kings	DS	February 2006	Guilty Gear Dust Strikers DS
April 2006 JAWS 'Unleashed'	Xbox, PS2, PC	May 2006	MechAssault: Phantom War DS
September 2006 Guilty Gear Judgment	PSP	September 2006	

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	Selected
Titles Platform Launch Date Teen Titans 2 GBA October 2006 Nacho Libre DS October 2006 Cooking Mama: Cook Off Wii March 2007 Bust-A-Move Bash! Wii April 2007 The New York Times Crosswords DS May 2007 Nancy Drew DS September 2007 Holly Hobbie & Friends DS October 2007 Zoo Hospital DS October 2007 Kengo: Legend of the 9 Xbox 360 September 2007 Cooking Mama 2: Dinner with Friends DS November 2007 Nanostray 2 DS February 2008 Eco-Creatures: Save the Forest DS March 2008 Wild Earth: African Safari Wii April 2008 BlastWorks: Build, Trade, Destroy Wii May 2008 Wonderworld Amusement Park Wii June 2008 Cooking Mama Cook Off 2 Wii June 2008 Major Minor's Majestic March Wii Holiday 2008 Our House Wii Holiday 2008 Cake Mania Wii Holiday 2008	
Peripheral Products	

Our peripheral products consist principally of our back catalog TV Arcade plug-and-play products. These products are stand-alone games that connect directly into television sets with standard RCA cables. These are battery operated and require no additional hardware or software. In 2006, we acted as a developer and manufacturer of Konami's Strawberry Shortcake™, Dance Dance Revolution®, and Dance Dance Revolution® Disney Mix for Konami. These Plug 'N Play products combine the high-energy dance gameplay of Konami's hit Dance Dance Revolution® (DDR) video game franchise with characters and music from each property.

Product Development

Prior to initiating the development of a video game title, we perform market research, studio due diligence and financial analyses. A title must then be approved by our "green light" committee comprised of members from our executive, product development, finance, sales and marketing and legal/business affairs teams before being accepted for publication. Once accepted, the title is evaluated at regular milestones to ensure it is progressing on time, according to specifications and on budget. In accordance with our current strategy, we will concentrate on procuring handheld products, value products, and opportunistically pursuing console titles.

We primarily use third party development studios to create our video game products. We carefully select third parties to develop video games based on their capabilities, suitability, availability and cost. We usually have broad rights to commercially utilize products created by the third party developers we work with. Development contracts are structured to provide developers with incentives to provide timely and satisfactory performance by associating payments with the achievement of substantive development milestones, and by providing for the payment of royalties to them based on sales of the developed product, only after we recoup development costs. We have worked, and continue to work, with independent third party developers, such as:

- Interactive;
- Budcat Creations;
- Productions;
- Inc.;
- Legacy
- Double Fine
- Gorilla Systems

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Multimedia;

Corporation.

- Shin 'En
- Torus Games; and
- Taito

On November 7, 2007, we announced the creation of an internal development facility to be based in Los Angeles. The studio will add technical and design skills to the company's overall operation and specifically focus on products and properties for the casual gamer. We estimate that this studio will develop a small number of our titles annually.

The development process for video games involves working with platform manufacturers from the initial game concept phase through approval of the final product. During this process, we work closely with manufacturers to ensure that the title undergoes careful quality assurance testing. Each platform manufacturer requires that the software and a prototype of each title, together with all related artwork and documentation, be submitted for its pre-publication approval. This approval is generally discretionary.

Intellectual Property

Platform Licenses

Hardware platform manufacturers require that publishers obtain a license from them to publish titles for their platforms. We currently have non-exclusive licenses from Nintendo for DS, GBA, GameCube and Wii, from Sony for PS2 and PSP and from Microsoft for Xbox and Xbox 360. Each license generally extends for a term of between two to four years and is terminable under a variety of events. Each license allows us to create one or more products for the applicable system, and requires us to pay a per-unit license fee and/or royalty payment from the title produced and may include other compensation or payment terms. Publishers are not required to obtain licenses for publishing video game software for PCs. All of the hardware manufacturers approve each of the titles we submit for approval on a title-by-title basis, at their discretion.

Licenses From Third Parties

While we develop original titles, most of our titles are based on rights, licenses and properties, including copyrights and trademarks, owned by other third parties. Even our original titles usually include some rights or properties from third parties. License agreements with third parties generally extend for a term of between two to three years, are limited to specific territories or platforms, and are terminable under a variety of events. Several of our licenses are exclusive within particular territories or platforms. The licensors often have strict approval and quality control rights. Typically, we are obligated to make minimum guaranteed royalty payments over the term of these licenses and advance payments against these guarantees, but other compensation or payment terms such as milestone payments, are also common. From time to time, we may also license other technologies from third-party developers for use in our products, which also are subject to royalties and other types of payment.

Licenses To Third Parties

As we create original titles we may decide to license rights to third parties, sometimes on an exclusive basis, in order to generate publicity or market demand for our titles, to generate additional revenue related to complementary products or a combination of these factors. For example, in regards to our BloodRayne franchise, we have sold the movie rights, entered into a strategy guide deal and licensed a comic book series, resin statues and an apparel line.

Manufacturing

Sony, Nintendo and Microsoft control the manufacturing of our products that are compatible with their respective video game consoles, as well as the manuals and packaging for these products, and ship the finished products to us for distribution. Video games for Microsoft, Nintendo and Sony game

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consoles consist of proprietary format CD-ROMs or DVD-ROMs and are typically delivered to us within the relatively short lead time, of approximately two to three weeks. Sony PSP products adhere to a similar production time frame, but use a proprietary media format called a Universal Media Disc, or UMD.

With respect to GBA and DS products, which use a cartridge format, Nintendo typically delivers these products to us within 45 to 60 days after receipt of a purchase order. For our peripheral offerings we use third party manufacturers who typically deliver these products to us within three to five weeks from the time production commences.

Initial production quantities of individual titles are based upon estimated retail orders and consumer demand. At the time a product is approved for manufacturing, we must generally provide the platform manufacturer with a purchase order for that product, and an irrevocable letter of credit for the entire purchase price, or cash in advance. To date, we have not experienced any material difficulties or delays in the manufacture and assembly of our products. However, manufacturers' difficulties, which are beyond our control, could impair our ability to bring products to the marketplace in a timely manner.

Sales and Marketing

North America

Historically, our marketing programs principally supported our premium game titles. While we support most of our titles in some manner, those with the most potential will have long lead-time, multi-faceted marketing programs designed to generate enthusiasm and demand. Specific consumer marketing strategies we may employ include: TV, radio and print advertising; web site and online marketing; demo distribution; promotions and cross-promotions with third parties; and point-of-purchase advertising. Our shift in strategic focus away from a reliance on big budget console titles has resulted in less reliance on marketing and significantly lower marketing expenditures.

Additionally, we customize public relations programs that are designed to create awareness with all relevant audiences, including core gamers and mass entertainment consumers. To date, our public relations efforts have resulted in significant coverage for our company and individual titles in computer and video game publications, such as Electronic Gaming Monthly, Game Informer, GamePro, Nintendo Power, PlayStation Magazine and Official Xbox Magazine, as well as major newspapers, magazines and broadcast outlets, such as CNN, USA Today, Wired, Maxim, Newsweek, The New York Times and TV Guide, among others. We also host media events throughout the year at which print, broadcast and online journalists can preview, review and evaluate our products prior to their release.

In addition to regular face-to-face meetings and communications with our sales force, we employ extensive trade marketing efforts including: direct marketing to buyers and store managers; trade shows; various store manager shows; and distribution and sales incentive programs.

We sell our products primarily to large retail chains, specialty retail stores, video game rental outlets and distributors. Our sales team has strong relationships with major retailers and communicates with them frequently. To supplement our sales team, we currently utilize six sales representative organizations located throughout the United States. The firms we use were chosen based on their performance and retailer relationships. On average, two sales representatives per organization are assigned to our accounts. It is customary for the sales representatives and resellers of our games who are assigned specific customers to also distribute games produced by other manufacturers. Distribution channels are dominated by a select group of companies, and a publisher's access to retail shelf space is a significant competitive factor.

International

As the global gaming market continues to grow, we believe that international markets represent a significant growth opportunity for our business. Over the last two years, we have expanded our

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international presence and in late fiscal year 2005 we established a new office in the United Kingdom and entered into a license and distribution agreement with a leading international publisher for distribution in Europe and the PAL territories. Under this agreement the publisher fulfills all sales, marketing and distribution needs for our multi-format product line-up. Our first sales under this agreement were realized in early 2006 and have generated revenues of \$17.3 million through October 31, 2007. We are also looking to develop similar distribution relationships in Asia Pacific and Japan.

Customers

Our customers are comprised of national and regional retailers, specialty retailers and video game rental outlets. We believe we have developed close relationships with a number of retailers including Best Buy, Circuit City, GameStop, Target, Toys “R” Us and Wal-Mart. We also have strong relationships with Cokem, Jack of All Games, a subsidiary of Take-Two Interactive Software, Inc., Ingram and SVG, who act as resellers of our products to smaller retail outlets. For the fiscal year ended 2007, our most significant customers were GameStop, Wal-Mart and Best Buy, which accounted for approximately 21%, 14% and 10% of our net revenue, respectively.

Competition

In general, our products compete with other forms of entertainment for the leisure time and discretionary spending of consumers. These forms include motion pictures, television and music. More specifically, the market for interactive entertainment products is highly competitive and relatively few products achieve significant market acceptance. We continue to 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.

With respect to our video game products, we compete with many other third party publishers in both the handheld, console and value segments. We expect that competition may increase in the future.

Current and future competitors may be able to:

- respond more quickly to new or emerging technologies or changes in customer preferences;
- carry larger inventories;
- gain access to wider distribution channels;
- undertake more extensive marketing campaigns;
- adopt more aggressive pricing policies;
- devote greater resources to securing the rights to valuable licenses and relationships with leading software developers;
- maintain better relationships with licensors and secure more valuable licenses;
- make higher royalty payments; and
- secure more and

better shelf space.

Competitive factors such as the foregoing may have a material adverse effect on our business.

Seasonality

The interactive entertainment business is highly seasonal with sales typically higher during the peak holiday selling season during the calendar year's fourth quarter. Traditionally, the majority of our sales for this key selling period ship in our fiscal fourth and first quarters, which end on October 31st and January 31st, respectively. Significant working capital is required to finance the manufacturing of inventory of products that ship during these quarters.

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Employees

We had 64 full-time employees in the United States and 6 full-time employees in the United Kingdom as of January 26, 2008. We have not experienced any work stoppages and consider our relations with our employees to be good.

Item 1A. Risk Factors.

Our business and operations are subject to a number of risks and uncertainties as described below. However, 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 occur, our business, financial condition or results of operations could suffer.

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

We incurred net losses of \$4.8 million, \$5.4 million, and \$70.9 million in fiscal years 2007, 2006 and 2005, respectively. For fiscal year 2005, the net loss was due to weak sales across all of our product lines, which resulted in significant reserves relating to capitalized costs, increased provisions in price protection and other allowances. In 2007 and 2006, the loss is primarily the result of revenues and resulting gross margins that were not sufficient to meet operating expenses. The 2006 loss was also the result of impairment charges and higher than normal legal expenses. Going forward, we may not be able to generate revenues sufficient to offset our costs, and may sustain further net losses in future periods. In addition, if we do become profitable, we may not be able to sustain or increase our profitability. Continued losses, or an inability to sustain profitability, may have an adverse effect on our future operating prospects and stock price.

We have experienced volatility in the price of our stock.

The price of our common stock has experienced significant volatility over the last three years, and such prices may be higher or lower than the price paid for our shares, depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;
- actual or anticipated changes in our earnings or fluctuations in our operating results or changes in the expectations of securities analysts;
- our, or a competitor's, announcement of new products, services or technological innovations;
- departures of key personnel;
- risks associated with possible disruption in our operations due to terrorism; or
- other risks and uncertainties as may be detailed from time to time in our public announcements and Securities and Exchange

Commission filings.

For example, the market price of our stock has fluctuated widely over the last fiscal year. Between November 1, 2006, and October 31, 2007, the closing sale price of our common stock ranged between a high of \$2.36 and a low of \$1.25, experiencing greater volatility over that time than most of the market did. The historic market price of our common stock may not be indicative of future market prices. We may not be able to sustain or increase the value of our common stock. Further declines in the market price of our stock could adversely affect our ability to retain personnel with stock incentives, to acquire businesses or assets in exchange for stock and/or to conduct future financing activities with or involving our common stock.

In addition, purchases or sales of large quantities of our stock could have an unusual effect on our stock price.

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If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results. As a result, current and potential stockholders could lose confidence in our financial reporting, which could have a negative market reaction.

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to report on, and may require our independent registered public accounting firm to attest to, the effectiveness of our internal control over financial reporting. The initial deadline for us to become compliant with Section 404 was October 31, 2005. As of such date, we were compliant and have implemented an ongoing program to perform the system and process evaluation and testing necessary to continue to comply with these requirements. Accordingly, we continue to incur expenses and will devote management resources to Section 404 compliance as necessary. Further, effective internal controls and procedures are necessary for us to provide reliable financial reports. If our internal controls and procedures become ineffective, we may not be able to provide reliable financial reports, our business and operating results could be harmed and current and potential stockholders may not have confidence in our financial reporting.

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, liquidity and our ability to operate going forward.

Although there can be no assurance, our management believes that based on our current plan there are sufficient capital resources from operations, including our factoring and purchase order financing arrangements, to finance our operational requirements through at least the next twelve months. If we continue to 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.

Failure to obtain financing or obtaining financing on unfavorable terms could result in a decrease in our stock price and could have a material adverse effect on future operating prospects, or require us to significantly reduce operations.

We are the subject of litigation, including a securities class action and other shareholder lawsuits.

The Company and certain of its current and former officers and directors are defendants in a securities class action and other shareholder lawsuits. While we intend to vigorously defend ourselves in these actions, we cannot predict the outcome of such lawsuits. We may also in the future be subject to additional class action suits, other litigation or regulatory proceedings. Any expenses incurred in connection with existing or additional potential litigation or proceedings or any adverse resolution of current and potential litigation or proceedings could have a material adverse effect on our business, results of operations, cash flows and financial condition. Further, any litigation proceeding or action may be time consuming, and it may distract our management from the conduct of our business.

We may be unable to complete the settlement of our class action and other shareholder litigation.

In October 2007, we reached agreements to settle certain litigations pending in the United States District Court, District of New Jersey: (i) a securities class action brought on behalf of a purported class of purchasers of the Company's securities, (ii) a private securities action filed by Trinad Capital Master Fund, Ltd., and (iii) a second action filed by Trinad purportedly on behalf of the Company. These settlements require notice to the shareholder class and/or court approval to become effective. We have no assurance that the court will approve these settlements, and if it does not, we may be forced to revert back to disputing the class claims, which may cause us to incur significant costs.

In addition, stockholders may decide to opt-out of the class action settlement and bring separate actions against the Company, which actions could have a material adverse effect on our business, results of operations, cash flows and financial condition.

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The issuance of stock in connection with our class action settlement will result in dilution to existing stockholders and may cause our stock price to decline.

Under the terms of the settlement agreement in the securities class action, we are required to contribute shares of our common stock with a market value of \$2.5 million. The shares being contributed to the settlement will be distributed to the settlement class if and when the court grants final approval to the settlement and the settlement becomes effective. At this time, we cannot estimate the timing of the issuance or the exact number of shares that will be contributed to the settlement, however, it will not be less than 1.8 million shares. Further, if the average closing bid price of our common stock for the 20 days prior to the settlement becoming effective is less than \$1.37, we will have to issue additional shares to fulfill our obligation under the settlement, or could, under certain circumstances, determine not to conclude the settlement and revert back to disputing the class claims. The issuance of these shares will be dilutive to investors and may hurt our stock price.

We may not be able to maintain our listing on the Nasdaq Capital Market.

Our common stock currently trades on the Nasdaq Capital Market. This market has continued listing requirements that we must maintain to avoid delisting. The standards include, among others, minimum bid price requirements and any of (i) a minimum stockholders' equity or (ii) minimum market value of our stock or minimum net income. Our results of operations and our fluctuating stock price directly impact our ability to satisfy these listing standards. In the event we are unable to maintain these listing standards, we may be subject to delisting.

A delisting from Nasdaq would result in our common stock being eligible for listing on the Over-The-Counter Bulletin Board (the "OTCBB"). The OTCBB is generally considered to be a less efficient system than markets such as Nasdaq or other national exchanges because of lower trading volumes, transaction delays and reduced security analyst and news media coverage. These factors could contribute to lower prices and larger spreads in the bid and ask prices for our common stock. Additionally, trading of our common stock on the OTCBB may make us less desirable to institutional investors and may, therefore, limit our future equity funding options and could negatively affect the liquidity of their investment by our stockholders.

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

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 commonly referred to as price protection. 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, nor can we predict the amount or nature of accommodations that we will provide in the future. If actual accommodations exceed our reserves, our earnings would be reduced, possibly materially. Any such reduction may have an adverse effect on our business, financial condition or results of operations. The granting of price protection and other allowances reduces our ability to collect receivables and impacts our availability for advances from our factoring arrangement. The continued granting of substantial price protection and other allowances may require additional funding sources to fund operations, but there can be no assurance that such funds will be available to us on acceptable terms, if at all.

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.

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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.

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

Our sales to Game Stop, Wal-Mart, and Best Buy accounted for approximately 21%, 14% and 10% of our net revenue for the fiscal year 2007, 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.

Significant competition in our industry could continue to adversely affect our business.

We cannot be assured 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 interactive entertainment products 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 handheld and console market segments. In addition, console and handheld manufacturers, such as Microsoft, Nintendo and Sony, publish software for their respective platforms. Further, 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 as more competitors enter the video game market.

Our business is dependent on the viability of console hardware.

Our business depends on hardware on which consumers play our games. Our business can be adversely affected by hardware as follows:

Hardware shortages. The new generation console hardware systems have experienced hardware shortages, including Nintendo's Wii console. Hardware shortages generally negatively affect the sales of video games since consumers do not have consoles on which to play the games.

Hardware pricing. The new generation console systems are priced higher than each of their predecessor platforms. The cost of the hardware could adversely affect their sales, which could negatively affect sales of our products for these platforms since consumers need a platform in order to play our games.

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Software pricing. Software prices for the new generation console games are higher than prices for games for the predecessor platforms. There is no assurance that consumers will continue to pay the higher prices of these games.

Increasing development costs. The introduction of the new generation platforms has required the development of new software to play on such consoles and new technologies to create such software. Because the new generation consoles have greater complexity and capabilities than the predecessor platforms, costs are higher to develop games for new generation consoles. Greater costs can lead to lower operating margins, negatively affecting our profitability.

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, GameCube, the DS, Wii and Micro and from Microsoft to develop products for the Xbox and the Xbox 360. 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 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 be unable to develop and publish new products if we are unable to secure or maintain relationships with third party video game software developers.

We utilize the services of independent software developers to develop the majority of our video games. Consequently, our success in the video game market depends on our continued ability to obtain or renew product development agreements with quality 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 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 independent video game software developers. We may be unable to secure or maintain relationships with quality 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 if either party declares bankruptcy, becomes insolvent, ceases operations or materially breaches its agreement.

In addition, many 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.

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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 are based on or incorporate intellectual property and other character or story rights 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, 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. In the event we are not successful in developing new titles 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 may be materially adversely affected.

Furthermore, interactive entertainment platforms are characterized by rapidly changing technology. We must continually anticipate the emergence of, and adapt our products to, new interactive 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.

A significant portion of our revenue in 2007 was generated from games based on one licensed franchise.

Approximately 37% of our net revenues in 2007 were generated from two games based on the Cooking Mama franchise, developed for use on the Nintendo DS and Wii. We licensed the rights to publish these games from a third party. We have secured rights to publish sequels to these games, which are scheduled for release in 2008 and 2009, however we cannot guarantee that the sequels will be as successful as the original versions. If the sequels are not successful, this may have a significant impact on our revenues. In addition, even if successful, we may be unable to secure the rights to publish further sequels to these games, which may adversely affect our business and financial performance.

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

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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.

Our intellectual property is vulnerable to misappropriation and infringement which could adversely affect our business prospects.

Our business relies heavily on proprietary intellectual property, whether our own or licensed from third parties. Despite our efforts to protect our proprietary rights, unauthorized parties may try to copy our products, or obtain and use information 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 the law of the United States. 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. If we are unable to protect our rights in intellectual property, our business, financial condition or results of operations could be materially adversely affected.

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

The products 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.

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 their 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. 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 could adversely affect our business.

Our business is subject to risks generally associated with the entertainment industry, and we may fail to properly assess consumer tastes and preferences, causing product sales to fall short of expectations.

Our business is subject to all of the risks generally associated with the entertainment industry and, accordingly, our future operating results will depend on numerous factors beyond our control, including the popularity, price and timing of new hardware platforms being released; economic,

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political and military conditions that adversely affect discretionary consumer spending; changes in consumer demographics; the availability and popularity of other forms of entertainment; and critical reviews and public tastes and preferences, which may change rapidly and cannot be predicted. A decline in the popularity of certain game genres or particular platforms could cause sales of our titles to decline dramatically. The period of time necessary to develop new game titles, obtain approvals of platform licensors and produce finished products is unpredictable. During this period, consumer appeal for a particular title may decrease, causing product sales to fall short of expectations.

We have developed international operations, which may subject us to economic, political, regulatory and other risks.

Continuing our international operations may subject us to many risks, including:

- difficulty in maintaining or finding a suitable distribution partner;
- 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;
- difficulties collecting our accounts receivable; and
- relying on limited business relationships.
- Our failure to manage or address any of these could adversely affect our business.

Our business is “hit” driven. If we do not deliver “hit” titles, or if consumers prefer competing products, our sales could suffer.

While many new products are regularly introduced, only a relatively small number of “hit” titles account for a significant portion of net revenue. Competitors may develop titles that imitate or compete with our “hit” titles, and take sales away from us or reduce our ability to command premium prices for those titles. Hit products published by our competitors may take a larger share of consumer spending than we anticipate, which could cause our product sales to fall below our expectations. If our competitors develop more successful products or offer competitive products at lower price, or if we do not continue to develop consistently high-quality and well received products, our revenue,

margins, and profitability will decline.

If we do not continue to attract and retain key personnel, we will be unable to effectively conduct our business.

The market for technical, creative, marketing and other personnel essential to the development and marketing of our products and management of our businesses is extremely competitive. We are frequently competing for this talent with other companies with greater resources. Our ability to operate within this highly competitive interactive entertainment industry is dependent upon our ability to attract and retain our employees. If we cannot successfully recruit and retain the employees we need, or replace key employees following their departure, our ability to develop and manage our businesses will be impaired.

Our failure to manage or adequately address any one or more of these rights could result in our business suffering a material adverse effect.

Item 1B. Unresolved Staff Comments.

Not applicable.

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Item 2. Properties.

We lease 21,250 square feet of office, development and storage space located at 160 Raritan Center Parkway, Edison, NJ 08837. The lease, which costs approximately \$28,510 per month, plus taxes, insurance and operating costs, expires on October 31, 2009.

We lease 900 square feet of office space in Europe, located at City Point, Temple Gate, BS16PL, Bristol, UK. This lease which costs approximately \$7,200 per month and is renewable on a six month basis.

As of January 4, 2008, we lease 5,974 square feet of office space at 2121 Cloverfield Blvd., Santa Monica, CA 90404 for our development studio. The lease, which costs approximately \$13,740 per month, plus taxes, insurance and operating costs, expires on December 31, 2010.

Item 3. Legal Proceedings.

As previously disclosed, during the quarter ended October 31, 2007, we entered into agreements to settle certain litigations pending in the United States District Court, District of New Jersey: a securities class action brought on behalf of a purported class of purchasers of the Company's securities, a private securities action filed by Trinad Capital Master Fund, Ltd., and a second action filed by Trinad purportedly on behalf of the Company.

Under the terms of the settlement agreement in the securities class action, which is subject to notice to the shareholder class and court approval, our insurance carrier will make a cash payment and the we will contribute shares of our common stock with a market value of approximately \$2.5 million. Plaintiffs have not yet filed a motion seeking preliminary approval of the settlement and notice to all class members setting a date for a hearing on the fairness of the settlement. We cannot predict when Plaintiffs will file the motion or when the Court will set the date for a hearing with respect thereto. The shares being contributed to the settlement will be distributed to the settlement class if and when the court grants final approval to the settlement and the settlement becomes effective. Plaintiffs' attorney fees will be paid from the settlement amount.

The settlement of the private securities claim in the action brought by Trinad on its own behalf provides that the Company's insurance carrier will make a cash payment to Trinad, subject to final approval of the class action settlement by the Court.

The settlement agreement in the action filed by Trinad, purportedly on behalf of the Company, will not result in a payment to the Company. Plaintiff's attorneys will not receive any fees in connection with the settlement. As a result of the filing of the lawsuit, the Company has taken actions which it and Trinad believe will benefit our shareholders and address the issues raised in the lawsuit. This settlement is also subject to notice to the Company's shareholders and to court approval.

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

Not applicable.

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PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed for trading on the Nasdaq Capital Market under the symbol "COOL." Prior to March 13, 2006 our common stock was listed on the Nasdaq Global Market. Prior to January 26, 2005, our common stock was quoted on the OTC Bulletin Board. The market for our common stock has often been sporadic, volatile and limited.

The following table shows the high and low bid quotations for our common stock as reported by the Nasdaq Global Market for periods prior to March 13, 2006, and Nasdaq Capital Market from March 13, 2006 through October 31, 2007. 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 2006		First Quarter		\$ 1.73	\$ 0.85	Second Quarter		\$ 1.84	\$ 1.00	Third Quarter	
\$ 1.81	\$ 1.25	Fourth Quarter		\$ 1.50	\$ 1.13	Fiscal Year 2007		First Quarter		\$ 2.13	\$ 1.23
Second Quarter		\$ 1.76	\$ 1.13	Third Quarter		\$ 2.37	\$ 1.43	Fourth Quarter		\$ 2.39	\$ 1.24

Holders of Common Stock. On January 28, 2008, we had approximately 276 registered holders of record of our common stock. On January 28, 2008, the closing sales price of our common stock as reported on the Nasdaq Capital Market was \$1.20 per share.

Dividends and dividend policy. We have never declared or paid any dividends on our common stock and we do not anticipate paying dividends on our common stock at the present time. We currently intend to retain earnings, if any, for use in our business. We do not anticipate paying dividends in the foreseeable future.

Securities authorized for issuance under equity compensation plans. The information called for by this item is incorporated by reference from our definitive proxy statement relating to our 2008 Annual Meeting of Stockholders, which we will file with the SEC within 120 days after our October 31, 2007 fiscal year end.

Recent Sales of Unregistered Securities.

All prior sales of unregistered securities have been previously reported on a Current Report on Form 8-K.

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Item 6. Selected 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 report. All financial information presented reflects as appropriate the 1-for-7 reverse stock split of our common stock, which occurred on December 31, 2004.

Year Ended October 31									
					2007	2006	2005	2004	2003 (in thousands, except share data)
Consolidated Statement Of Operations Data:					Net revenues				
59,716	\$ 120,984	\$ 46,608	Cost of sales (1)	33,682	46,858	61,101	86,242	30,803	Gross
(loss) profit	17,285	19,825	(1,385)	34,742	15,805	Operating expenses (2)	21,114	22,820	
68,805	22,630	24,545	Operating (loss) income	(3,829)	(2,995)	(70,190)	12,112	(8,740)	
Interest and financing costs, net	1,552	2,371	1,869	2,806	2,077	Other non-operating (income)			
expense (3)	(611)	—	48	19,068	24	Loss before income taxes	(4,770)	(5,366)	(72,107)
(9,762)	(10,841)	(Benefit) provision for income taxes	—	—	(1,207)	1,424	—	Net (loss)	\$ (4,770)
\$ (5,366)	\$ (70,900)	\$ (11,186)	\$ (10,841)	Net (loss) attributable to common					
stockholders (4)	\$ (4,770)	\$ (5,366)	\$ (72,000)	\$ (15,388)	\$ (10,841)	Net (loss) attributable to			
common						stockholders per share:			
(0.24)	\$ (3.48)	\$ (1.84)	\$ (4.95)	Weighted average shares outstanding:			Basic and Diluted	\$ (0.20)	\$
Diluted	23,891,860	22,616,419	20,686,863	8,385,657	2,189,285				

October 31									
					2007	2006	2005	2004	2003 In thousands Consolidated Balance Sheet Data:
Cash and cash equivalents					\$ 7,277	\$ 3,794	\$ 2,407	\$ 4,170	\$ 314 Working capital (deficit)
2,834	977	3,757	8,915	(10,927)	Total assets	16,313	15,011	30,703	43,952 17,611
Non-current liabilities	1,460	—	—	—	Dividend payable in common stock	—	—	—	1,261 —
Stockholders' equity (deficiency)	2,591	1,749	4,761	13,785	(15,730)				

(1) Cost

of sales, in 2005, includes: (i) charges of \$10.5 million to recognize impairments to the carrying value of products released in 2005; and (ii) \$5.1 million for reserves for slow moving inventory. Cost of sales in 2004 includes charges of \$500,000 to recognize impairments to the carrying value of products released in 2004. (2) Operating expenses include: (i) for 2007, a settlement of litigation and related charges, net of \$2.8 million, a gain from settlement of liabilities of \$0.3 million and a provision for software development costs of \$0.1 million; (ii) for 2006, a gain from settlement of liabilities and other of

Table of Contents \$4.8 million, and a loss in impairment of software development costs of \$2.4 million, (iii) for 2005, a charge for an accounts receivable write-off of \$0.3 million, \$26.3 million to write-off capitalized costs related to video games for which development was stopped or impaired, a provision for severance of \$1.4 million, and a loss of \$1.4 million related to a legal settlement; (iv) for 2004, charges for an accounts receivable write-off of \$0.6 million, non-cash compensation of \$0.3 million, and a gain of \$1.2 million related to the renegotiation of our 2003 litigation settlement; and (v) for 2003, provisions for loss on impairment of software development costs of \$3.7 million for which development was stopped and litigation and settlement costs of \$4.9 million. (3) Other non-operating expense includes: (i) for 2007, a gain from a change in fair value of warrants of \$0.6 million; (ii) for 2005, a realized loss on foreign exchange of \$48,000; (iii) for 2004, expenses related to the merger of \$0.3 million, an unrealized loss on a foreign exchange contract of \$0.3 million and a non-cash charge of \$18.5 million related to the change in fair value of warrants issued in connection with the private placement; and (iv) for 2003, an unrealized loss on a foreign exchange contract of \$24,000. (4) Net (loss) attributable to common stockholders includes: (i) for 2005, a \$1.1 million non-cash charge related to warrants exercised at a discount; and (ii) for 2004, a non-cash charge of \$0.8 million related to a deemed dividend, 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.

Item 7. 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 annual report on Form 10-K. 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 annual report on Form 10-K.

Overview

We are a provider of interactive entertainment products. We sell our products primarily to large retail chains, specialty retail stores, video game rental outlets and distributors. We also sell our products internationally through distribution agreements with other publishers. We have developed our retail and distribution network over our 20-year history.

We publish video game software for most major interactive entertainment hardware platforms, including Nintendo's Wii, Game Boy Advance, or GBA, DS, Micro and GameCube, Sony's PlayStation 2, or PS2, and PlayStation Portable, or PSP™, Microsoft's Xbox, Xbox 360 and the personal computer, or PC.

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

Majesco Sales Inc. was incorporated in 1986 under the laws of the State of New Jersey. On December 5, 2003, Majesco Sales Inc. completed a reverse merger with Majesco Holdings Inc. (formerly, ConnectivCorp) then a publicly traded company with no active operations. Majesco Holdings Inc. was incorporated in 1998 under the laws of the State of Delaware. As a result of the merger, Majesco Sales Inc. became a wholly-owned subsidiary and the sole operating business of the public company. On April 4, 2005, Majesco Sales Inc. was merged into Majesco Holdings Inc., and Majesco Holdings Inc. changed its name to Majesco Entertainment Company.

During 2006, we revised our business model and shifted our product strategy away from capital intensive premium console games to a focus on lower-cost games for both console and handheld

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systems targeting “mass market” consumers. We believe this strategy allows us to capitalize on our strengths and expertise while reducing some of the cost and risk associated with publishing a large number of premium console titles. We continue to publish titles for popular handheld systems such as the GBA, DS and PSP. We also publish software for Nintendo’s Wii console (released in late 2006) as we believe this platform allows us to develop games within our cost parameters, while enabling us to reach “mass market” consumers. In addition, we continue to opportunistically look for titles to publish on the PC and other home console systems.

Net Revenues. Our revenues are principally derived from sales of our video game titles. We primarily provide video games for the mass market and casual game player. We work with third-party development studios to develop our own proprietary titles and we also license rights to properties from third parties. In 2007, we announced the opening of our own development studio. However, we expect to continue to use third party studios for the significant majority of our development. We have also developed, manufactured and marketed a variety of digital media peripherals and applications including “plug-and-play” video game systems.

Our revenues are recognized net of reserves for price protection and other allowances.

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 peripherals. Commencing upon the related product’s release, capitalized software development and intellectual property license costs are amortized to cost of sales.

Gross Profit. Gross Profit is the excess of net revenues over product costs and amortization of software development and license fees. Development and license fees incurred to produce video games are generally incurred up front and amortized to cost of sales. The recovery of these costs and total gross profit is dependent upon achieving a certain sales volume, which varies by title. Our value titles are generally characterized as having lower gross profit margin potential than premium titles as a result of their lower sales price, and carry lower financial risk associated with the recovery of upfront development and license fees as compared with premium game titles.

Product Research and Development Expenses. Product research and development expenses relate principally to our cost of supervision of third-party video game developers, testing new products and conducting quality assurance evaluations during the development cycle. Costs incurred are employee-related, may include equipment and are not allocated to cost of sales.

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. A large component of these expenses relate to marketing and promotion expenses, which includes certain customer marketing allowances.

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. 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.

Interest and Financing Costs. Interest and financing costs are directly attributable to our factoring and our purchase-order financing arrangements.

(Benefit) Provision for Income Taxes. Utilization of our net operating loss carryforwards may be subject to a substantial annual limitation due to the “change in ownership” provisions of the Internal Revenue Code. The annual limitation may result in the expiration of net operating loss carryforwards before utilization. Since the Company has a history of losses, a full valuation allowance has been established under the provisions of SFAS No. 109 and the company intends to maintain a valuation allowance for its net operating loss carryforwards until sufficient positive evidence exists to support its reversal.

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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 to 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.

Revenue Recognition. We recognize revenue upon the shipment of our product when title and risk of loss are transferred and persuasive evidence of an arrangement exists. In order to recognize revenue, we must not have any continuing obligations and it must also be probable that we will collect the accounts receivable. Revenues, including sales to resellers and distributors, are recognized when these conditions are met.

Reserves for Price Protection and Other Allowances. 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 generally 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 premium-priced titles is higher than that needed for 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 interactive entertainment market, the overall economy, changes in customer demand and acceptance of our products and other related factors. Significant management judgments and estimates must be made and used in connection with establishing the allowance for returns and price protection in any accounting period. 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, 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 twelve month periods ended October 31, 2007, 2006, and 2005, we provided allowances for future price protection and other allowances of \$2.0 million, \$3.8 million, and \$15.1 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 we

factor our receivables to a third party that generally buys our receivables without recourse.

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Inventory. Inventory, which consists principally of finished goods, is stated at the lower of cost as determined by the first-in, first-out method, or market. We estimate the net realizable value of slow-moving inventory on a title-by-title basis and charge the excess of cost over net realizable value to cost of sales.

Software development costs and prepaid license fees. Software development costs include development fees, most often in the form of milestone payments made to independent video game developers for development services. 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. Prepaid license fees represent license fees to holders for the use of their intellectual property rights in association with our products. Minimum guaranteed royalty payments for intellectual property licenses are initially recorded as an asset (prepaid license fees) 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 a related product's release, capitalized software development costs and prepaid license fees 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 prepaid license fees is evaluated based on the expected performance of the specific products to 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. Significant management judgments and estimates are utilized in the assessment of the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional costs to be incurred to complete and publish the product. If revised forecasted or actual product sales are less than, and/or revised forecasted or actual costs are greater than, the original forecasted amounts utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge. We recorded an expense of \$0.2 million, \$2.4 million and \$26.3 million for the twelve months ended October 31, 2007, 2006 and 2005, respectively, related to development costs for projects which were either canceled, or for which full recoverability was not expected. In the twelve month periods ended October 31, 2007, 2006 and 2005, we charged \$7.7 million, \$14.6 million, and \$22.7 million, respectively, to cost of sales for amortization of software development costs, prepaid license fees and royalties on products which were sold.

Accounting for Stock-Based Compensation. In December 2004, the Financial Accounting Standards Board "FASB" issued SFAS No. 123 (revised 2004), "Share Based Payment" ("SFAS 123(R)"). SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. We adopted SFAS 123(R) on November 1, 2005. SFAS 123(R) permits public companies to adopt its requirements using either the modified prospective or modified retrospective transition method. We use the modified prospective transition method, which requires that compensation cost is recognized for all awards granted, modified or settled after the effective date as well as for all awards granted to employees prior to the effective date that remain unvested as of the effective date.

Commitments and Contingencies. The Company accounts for commitments and contingencies in accordance with financial accounting standards board Statement No. 5, Accounting for Contingencies. The company records a liability

for commitments and contingencies when the amount is both probable and reasonably estimable.

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Results of Operations

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

Year Ended October 31,	2007	2006	2005	Net revenues	100.0 %	100.0 %	100.0 %	Cost of sales		
Product costs	50.9	48.4	64.3	Software development costs and license fees	15.2	21.9	38.0			
Gross (loss) profit	33.9	29.7	(2.3)	Operating expenses				Product research and development		
4.5	3.9	5.7	Selling and marketing	14.6	16.4	40.5	General and administrative	16.4	16.9	
18.3	Depreciation and amortization	0.6	0.6	1.5	Settlements, loss on impairments and other expenses					
(income)	5.3	(3.6)	49.2	Operating loss	(7.5)	(4.5)	(117.5)	Interest and financing costs and		
other non-operating expenses	1.8	3.6	3.2	Loss before income taxes	(9.4)	(8.0)	(120.7)	Benefit		
from income taxes	—	—	(2.0)	Net loss	(9.4)%	(8.0)%	(118.7)%			

The following table sets forth the components of Settlements, loss on impairments and other expenses (gains) for the years ended October 31, 2007, 2006 and 2005.

Year Ended October 31,	2007	2006	2005	(in thousands)	Write-off of accounts receivable	\$ —	\$ —	\$ 322
(Gain) loss on settlements	(266)	(4,753)	1,437	Settlement of litigation and related charges, net	2,822			
—	—	Loss on impairment of software development costs	154	2,375	26,281	Severance	—	1,360
Balance – end of year	\$ 2,710	\$ (2,378)	\$ 29,400					

January 31, 2006. In addition, the variable selling and marketing costs such as commissions, also decreased due to lower revenues in 2007. Selling and marketing expense as a percentage of net sales was approximately 15% for the year ended October 31, 2007, compared to 16% in the prior year.

General and Administrative Expenses. For the year ended October 31, 2007 general and administrative expenses were \$8.4 million, a decrease of \$2.9 million from \$11.3 million for the year

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ended October 31, 2006. The decrease is primarily due to lower legal and stock based compensation costs. During 2006, we recorded legal expenses of approximately \$1.2 million related to stockholder and other litigation that were below the deductibles in our insurance policies, or otherwise not reimbursable. We recorded \$1.5 million of stock based compensation expense related to SFAS 123(R) during 2007 compared to \$2.2 million during 2006.

Settlements, loss on impairments and other expenses (gains). Settlements, loss on impairments and other expenses (gains) increased from a loss of \$2.7 million for the year ended October 31, 2007 to a gain of \$(2.4) million for the year ended October 31, 2006. The \$5.1 million increase is primarily due to a \$2.8 million non-cash charge related to the settlement of litigation in 2007 and a decrease in gains on the settlement of accounts payable of \$4.5 million, partially offset by a decrease in impairment charges of \$2.2 million.

As discussed in Item 3. Legal Proceedings contained herein, during the quarter ended October 31, 2007, we entered into settlement agreements to settle certain litigations pending in the United States District Court, District of New Jersey: (i) a securities class action brought on behalf of a purported class of purchasers of the Company's securities; (ii) a private securities action filed by Trinad Capital Master Fund, Ltd.; and (iii) a second action filed by Trinad purportedly on behalf of the Company.

Under the terms of the settlement agreement in the securities class action, which is subject to notice to the shareholder class and court approval, our insurance carrier will make a cash payment and we will contribute shares of our common stock with a market value of \$2.5 million. The shares being contributed to the settlement will be distributed to the settlement class if and when the court grants final approval to the settlement and the settlement becomes effective.

At this time, we cannot estimate the exact number of shares that will be contributed to the settlement, however, it will not be less than 1.8 million shares. Further, if the average closing bid price of our common stock for the 20 days prior to the settlement becoming effective is less than \$1.37, we would have to issue additional shares to fulfill our obligation under the settlement, or could, under certain circumstances determine not to conclude the settlement and revert back to disputing the class claims.

During the twelve months ended October 31, 2007, we recorded a \$2.8 million charge in connection with the expected settlement of the class action litigation discussed above. The charge is comprised of \$2.5 million, representing the fair value, on the date the settlement agreement was executed, of the common stock expected to be distributed when the settlement becomes effective, and \$0.3 million, representing the increase in the value of the shares since that date.

We will adjust the fair value of the liability to the fair value of the shares expected to be distributed at each balance sheet date and record the resulting change as a non-cash charge to earnings in each period until the shares are distributed. The settlement provides that if the fair value of the stock falls below \$2.5 million, we will have to issue additional shares, subject to certain limitations, with a fair market value equal to the amount of the decrease. Therefore, the liability will not be adjusted below \$2.5 million.

There is no assurance that the settlement described above will be achieved, and if not achieved, there can be no assurance that our insurance will be adequate to cover our costs relating to the litigation. Any expenses incurred in connection with the litigation not covered by available insurance or any adverse resolution of such litigation could have a material adverse effect on our financial condition and future viability of the Company.

Gains on settlement of liabilities for the year ended October 31, 2007 consist of the settlement of marketing accounts payable for less than the invoice amount. Gains on settlement of liabilities for the year ended October 31, 2006 consist of \$1.5 million related to negotiated reductions in royalty payments due for certain video and video game titles,

\$0.5 million gain on the sale of the rights to certain video game titles, and \$2.8 million gain on the settlement of legal and marketing and development accounts payable for less than the invoice amount.

Operating Loss. Operating loss for the year ended October 31, 2007 was \$3.8 million, compared to an operating loss of \$3.0 million for the year ended October 31, 2006. The increase in operating

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loss of \$0.8 million, was primarily due to the increase of \$5.1 million in settlements, impairments and other expenses (gains) discussed above, partially offset by the positive impact of higher gross margin percentages and lower operating expenses of \$5.9 million.

Interest and Financing Costs, Net. Interest and financing costs decreased to \$1.5 million for the year ended October 31, 2007 from \$2.4 million for the 2006. The decrease is the result of lower factoring fees and a reduction in the amount of inventory financing.

Change in fair value of Warrants. As discussed in note 10 to our financial statements, we recorded income of \$0.6 million for the twelve months ended October 31, 2007, reflecting the decrease in fair value of warrants issued in connection with a private placement of our equity securities in September 2007.

Income Taxes. We did not record any income tax benefit because realization of the resulting loss carryforwards cannot be assured.

Net Loss. Net Loss for the year ended October 31, 2007 was \$4.8 million, a decrease of \$0.6 million from a net loss of \$5.4 million for the comparable period in 2006. The decrease in net loss was primarily due to a charge for the settlement of litigation in 2007 of \$2.8 million and decreased gain on settlement of liabilities and other gains of \$4.5 million, partially offset by lower operating expenses discussed above and a \$2.2 million decrease in impairment charges.

Year ended October 31, 2006 versus year ended October 31, 2005

Net Revenues. Net revenues for the year ended October 31, 2006 increased to \$66.7 million from \$59.7 million in the comparable period in 2005. The \$7.0 million increase is primarily due to increased international sales and a lower provision for price protection and other allowances on domestic sales. The lower provision for price protection and other allowances is the result of a higher sell-through percentage at retailers for titles released during the year ended October 31, 2006. This is reflective of our change in strategy of selling fewer premium games.

Gross (Loss) Profit. Gross profit for the year ended October 31, 2006 was \$19.8 million compared to a gross loss of (\$1.4) million in the prior year. The increase of \$21.2 million is primarily due to a \$10.5 million charge to cost of sales during the year ended October 31, 2005 to recognize impairments in the carrying value of games for which orders received were significantly below expectations, a decrease in provisions for price protection and other allowances, and increased sales in Europe. Gross profit as a percentage of net sales increased to 30% compared to (2%) in the prior year.

Product Research and Development Expenses. For the year ended October 31, 2006 product research and development costs decreased \$0.8 million to \$2.6 million from \$3.4 million in the comparable period in 2005. The decrease is principally attributable to a lower number of quality assurance employees as a result of the fewer number of premium game projects currently in the development cycle.

Selling and Marketing Expenses. For the year ended October 31, 2006 total selling and marketing expenses were \$10.9 million, a \$13.3 million decrease from \$24.2 million for the comparable period last year. The decrease is primarily the result of higher media costs related to premium games launched in the year ended October 31, 2005. During 2006, we changed our strategy to focus on value titles which typically require lower expenditures for advertising and marketing than premium titles. Sales, selling and marketing as a percentage of net sales decreased to 16% from 41% in the same period in the prior year.

General and Administrative Expenses. For the year ended October 31, 2006 general and administrative expenses increased to \$11.3. million from \$10.9 million during the comparable period in 2005. The \$0.4 million increase is primarily due to higher non cash compensation costs related to the adoption of SFAS 123R, partially offset by lower franchise taxes resulting from a lower asset base used to calculate the taxes and a decrease in one time charges related to severance. For the year ended October 31, 2006 we recorded \$1.8 million of stock compensation expense related to the adoption of SFAS 123 (R) effective November 1, 2005, and \$0.5 million for stock and warrants issued

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for services. For the year ended October 31, 2005, we recorded a one time charge of \$1.4 million, primarily related to a below market stock option grant to our former Chief Executive Officer. This option grant was subsequently forfeited as part of his severance agreement. General and administrative expenses for the twelve months ended October 31, 2006 also include approximately \$1.0 million of legal settlements and related expenses.

Other Operating Expenses. During the year ended October 31, 2006 we recorded gains on settlement of liabilities of \$4.7 million, consisting of \$1.5 million related to negotiated reductions in royalties due for certain video and video game titles, \$0.5 million gain on the sale of the rights to certain video game titles and a \$2.7 million gain on the settlement of accounts payable for legal, marketing and development expenses for less than the invoiced amounts. In addition, we charged operations \$2.4 million to write-off capitalized costs related to games for which development plans were changed such that it is uncertain whether potential value of that development will be realized.

During the year ended October 31, 2005 we recorded a provision for a loss of \$1.4 million in connection with a proposed settlement with one of our distributors. We do not have significant exposure to credit risk as our factor generally buys our receivables without recourse; however, during the year ended October 31, 2005, we recorded an accounts receivable write-off of \$0.3 million related to customer bankruptcies. In addition, during the year ended October 31, 2005 we recorded \$1.4 million of expense related to severance agreements and we charged operations \$26.3 million to write-off all capitalized costs related to the development of video games that we had determined would not be commercially viable and for which development was stopped.

Operating Loss. For the year ended October 31, 2006 we generated an operating loss of \$3.0 million, compared to an operating loss of \$70.2 million during the same period in 2005. The decrease in operating loss was primarily due to higher gross profit and lower selling and marketing expenses related to our shift in product strategy, a decrease in impairment of software development costs, and gains on settlement of liabilities.

Interest and Financing Costs, net. For the year ended October 31, 2006 interest and financing costs increased approximately \$0.5 million to \$2.4 million from \$1.9 million in the same period in 2005. The increase is primarily attributable to an increase in the use of purchase order financing to purchase inventory and an increase in borrowing rates.

Loss on Foreign Exchange Contract. During the year ended October 31, 2005 we recorded a loss of \$48,000 related to a foreign exchange contract. There were no comparable amounts recorded in the 2006 period.

Income Taxes. As a result of the availability of loss carryforwards, we have not recorded any provisions for federal or state income taxes in the current period. Federal and state income taxes were provided for at a combined effective rate of 40% in the 2005 fiscal year. We recorded a tax benefit of \$1.2 million for the year ended October 31, 2005, net of a full valuation allowance against net deferred tax assets recorded in prior periods.

Net Loss. For the year ended October 31, 2006, we generated a net loss of \$5.4 million compared to a net loss of \$70.9 million in the same period in 2005. Included in the loss for 2005 is a \$1.1 million charge related to the fair value of warrants exercised at a discount.

Liquidity and Capital Resources

We incurred a net loss of \$4.8 million in 2007 and a net loss of \$5.4 million in 2006. Historically, we have funded our operating losses through sales of our equity and use of our purchase order financing and factor arrangements. We raised approximately \$6.0 million in gross proceeds from the sale of our equity securities in September 2007.

While our current plan is to fund our operations through product sales, we may be required to modify that plan, or seek outside sources of financing if our operating and sales targets are not met. There can be no assurance that such funds will be available on acceptable terms, if at all. While management has already significantly reduced expenditure levels, in the event that we are unable to

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negotiate alternative financing, or negotiate terms that are acceptable to us, we may be forced to further materially modify our business plan, including making further reductions in expenditures. Management believes it can operate under the existing level of financing for at least one year. However, if the current level of financing was reduced and the company was unable to obtain alternative financing, it could create a material adverse change in the business.

During the second half of fiscal year 2005, we had several major developments that ultimately led us to revise our business model and shift our product strategy away from capital intensive premium console games to a focus on value products and lower-cost games for handheld systems. In conjunction with our shift in strategy, we evaluated our existing portfolio of premium console titles in development and decided to sell our rights or cancel a number of these titles. While this resulted in decreased revenues from premium game titles, these actions improved the financial position of the company by significantly reducing our future obligations and, in some instances, generating cash.

Going forward, we will continue to publish titles for popular handheld systems such as the GBA, DS and PSP, as well as look for opportunistic titles that fit our business model for home consoles such as the Wii and PCs. We believe that a decreased emphasis on premium console titles, along with a renewed focus on value and handheld titles, will allow us to capitalize on our strengths and expertise. Although there can be no assurance, we expect this model will lessen the level of required working capital to support the plan.

While our cash and cash equivalents balance was \$7.3 million as of October 31, 2007, we expect continued volatility in the use and availability of cash due to the seasonality of our business, timing of receivables collections and working capital needs necessary to finance our business and growth objectives. 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.

Under our factoring agreement we have the ability to take cash advances against accounts receivable and inventory of up to \$20 million, and \$2 million in letters of credit. The factor, in his sole discretion, can reduce the availability of financing at anytime. In addition we have \$10 million of availability for letters of credit and purchase order financing with another lender.

Factoring and Purchase Order Financing. As mentioned above, to provide liquidity, we take advances from our factor and utilize purchase order financing to fund the manufacturing of our products.

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 less factor charges of 0.5% of invoiced amounts for these credit and collection services.

Manufacturers require us to present a letter of credit, or pay cash in advance, in order to manufacture the products required under a purchase order. Currently, we utilize letters of credit from a finance company which charges 1.5% of the purchase order amount for each transaction for 30 days, plus administrative fees. 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 if letters of credit remain outstanding in excess of the original time period and/or the financing company is

not paid at the time the products are received. When our liquidity position allows, we will pay cash in advance instead of utilizing purchase order financing. This results in reduced financing and administrative fees associated with purchase order financing.

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 at its

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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 our needs require, we may request that the factor advance 70% of the eligible receivables, and advance 50% of inventory up to a maximum of \$1.5 million. The interest rate is prime plus 1.5%.

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.

Tabular Disclosure of Contractual Obligations. The following table summarizes our minimum guarantees and other contractual obligations as of October 31, 2007:

Payments due by period		Total of					
Less than	one year	1 – 3	Years	(in thousands)	Contractual Obligations	Operating leases	
development (1)	5,300	5,300	—	6,008	5,666	342	Commercial Obligations
of credit (2)	500	500	—	Total Obligations	\$ 6,508	\$ 6,166	\$ 342

(1)

Payable only upon achievement of milestones. (2) Arising under purchase order assignments for inventory purchases.

As discussed in Item 3. Legal Proceedings, during the quarter ended October 31, 2007, we entered into settlement agreements to settle certain litigations pending in the United States District Court, District of New Jersey: (i) a securities class action brought on behalf of a purported class of purchasers of the Company's securities; (ii) a private securities action filed by Trinad Capital Master Fund, Ltd.;(iii) and a second action filed by Trinad purportedly on behalf of the Company.

Under the terms of the settlement agreement in the securities class action, which is subject to notice to the shareholder class and court approval, our insurance carrier will make a cash payment and we will contribute shares of our common stock with a market value of \$2.5 million. The shares being contributed to the settlement will be distributed to the settlement class if and when the court grants final approval to the settlement and the settlement becomes effective.

At this time, we cannot estimate the exact number of shares that will be contributed to the settlement, however, it will not be less than 1.8 million shares. Further, if the average closing bid price of Our common stock for the 20 days prior to the settlement becoming effective is less than \$1.37, we would have to issue additional shares to fulfill our obligation under the settlement, or could, under certain circumstances determine not to conclude the settlement and revert back to disputing the class claims.

During the twelve months ended October 31, 2007, we recorded a \$2.8 million charge in connection with the expected settlement of the class action litigation discussed above. The charge is comprised of \$2.5 million, representing the fair value, on the date the settlement agreement was executed, of the common stock expected to be distributed when the settlement becomes effective, and \$0.3 million, representing the increase in the value of the shares since that date.

We will adjust the fair value of the liability to the fair value of the shares expected to be distributed at each balance sheet date and record the resulting change as a non-cash charge to earnings in each period until the shares are

distributed. The settlement provides that if the fair value

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of the stock falls below \$2.5 million, we will have to issue additional shares, subject to certain limitations, with a fair market value equal to the amount of the decrease. Therefore, the liability will not be adjusted below \$2.5 million.

There is no assurance that the settlement described above will be achieved, and if not achieved, there can be no assurance that our insurance will be adequate to cover our costs relating to the litigation. Any expenses incurred in connection with the litigation not covered by available insurance or any adverse resolution of such litigation could have a material adverse effect on our financial condition.

Off-Balance Sheet Arrangements

As of October 31, 2007 we have no off-balance sheet arrangements.

Cash Flows

Cash and cash equivalents were \$7.3 million as of October 31, 2007 compared to \$3.8 million at October 31, 2006. Working capital as of October 31, 2007 was \$2.8 million compared to \$1.0 million at October 31, 2006.

Operating Cash Flows. Our principal operating source of cash is from the sales of our interactive entertainment products. Our principal operating uses of cash are for payments associated with third-party developers of our software; costs incurred to manufacture, sell and market our video games and general and administrative expenses.

For the year ended October 31, 2007, we used approximately \$0.8 million from operations. The decrease in cash provided by operating activities reflects a decrease in cash from the sale of certain video game rights, partially offset by our change in strategy to video games with lower upfront development and license acquisition costs.

For the year ended October 31, 2006, we generated approximately \$0.2 million from operations. The increase in cash provided by operating activities reflects our change in strategy to video games with lower upfront development and license acquisition costs. Included in cash from operations is approximately \$9.1 million from the sale of the rights to certain video game titles which were in development.

For the year ended October 31, 2005, we used cash of \$55.0 million in operating activities principally to fund the loss of \$17.9 million, excluding non cash items of \$53.0 million and the acquisition of capitalized software and intellectual property rights of \$52.9 million. Cash from operations was principally provided by the net reduction in due from factor of \$15.8 million, and as a result of availability of excess cash from the secondary offering and lower sales volume in the second half of fiscal 2005, both of which reduced our need to borrow from the factor.

Investing Cash Flows. Cash used in investing activities for the year ended October 31, 2007, 2006 and 2005 are primarily related to purchases of computer equipment and leasehold improvements of \$0.2, \$0.2, and \$0.5 million, respectively.

Financing Cash Flows. Net cash generated by financing activities for the year ended October 31, 2007 consists primarily of net proceeds from the private placement of our equity securities of \$5.8 million (see note 10 to the financial statements), offset by the repayment of purchase order financing.

Net cash generated by financing activities for the year ended October 31, 2006 was \$1.4 million and consisted of proceeds from purchase order financing.

Net cash generated from financing activities for the year ended October 31, 2005 was \$53.7 million which consisted of: (i) net proceeds of \$41.9 million from the sale of stock in our secondary public offering; (ii) net proceeds from the exercise of stockholder and placement agent warrants, issued in the February 2004 private placement of \$12.1 million; and (iii) net proceeds of \$6.5 million from the exercise of warrants at reduced exercise price. Financing cash was used to repay \$6.7 million of inventory financing.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to various market risks, including 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. For the year ended October 31, 2005, we recorded a \$48,000 loss related to a foreign currency forward exchange contract which expired on March 31, 2005.

Item 8. Financial Statements and Supplementary Data.

The financial statements required by Item 8 are submitted in a separate section of this report, beginning on Page F-1, are incorporated herein and made a part hereof..

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

On October 26, 2007, the Company was notified that the partners of Goldstein Golub Kessler LLP (“GGK”) became partners of McGladrey & Pullen, LLP in a limited asset purchase agreement and that GGK resigned as independent registered public accounting firm for the Company. McGladrey & Pullen, LLP was appointed as the Company’s new independent registered public accounting firm. A copy of the letter dated October 26, 2007 from GGK to the Company notifying the Company of the change was filed on a Current Report Form 8-K on October 26, 2007.

Item 9A. Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), as of the end of the period covered by this report.

In designing and evaluating our disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

No system of controls can prevent errors and fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur. Controls can also be circumvented by individual acts of some people, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with its policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Subject to the limitations above, management believes that the consolidated financial statements and other financial information contained in this report, fairly present in all material respects our financial condition, results of operations,

and cash flows for the periods presented.

Based on the evaluation of the effectiveness of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective at a reasonable assurance level. There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

Not applicable

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PART III

The information required by Part III of Form 10-K under:

Item 10 – Directors and Executive Officers of the Registrant.

Item 11 – Executive Compensation.

Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Item 13 – Certain Relationships and Related Transactions, and Director Independence.

Item 14 – Principal Accounting Fees and Services.

is incorporated by reference from our definitive proxy statement relating to the 2008 Annual Meeting of Stockholders, which we will file with the SEC within 120 days after our October 31, 2007 fiscal year end.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)

(1) Financial Statements.

The financial statements required by item 15 are submitted in a separate section of this report, beginning on Page F-1, incorporated herein and made a part hereof.

(2) Financial Statement Schedules.

Schedules have been omitted because of the absence of conditions under which they are required or because the required information is included in the financial statements or notes thereto.

(3) Exhibits.

The

following exhibits are filed with this report, or incorporated by reference as noted;

2.1

Agreement and Plan of Merger, dated as of November 10, 2003, by and among ConnectivCorp, CTTV Merger Corp. and Majesco Sales Inc. (incorporated by reference to Exhibit 2.1 to an Amendment to our Current Report on Form 8-K filed on December 22, 2003). 2.2 Amendment to Agreement and Plan of Merger, dated December 3, 2003, by and among ConnectivCorp, CTTV Merger Corp. and Majesco Sales Inc. (incorporated by reference to Exhibit 2.2 to our Current Report on Form 8-K filed on December 22, 2003). 3.1 Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q filed on June 14, 2005). 3.2 Restated Bylaws (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on June 17, 2005). 4.1 Certificate of Designations, Preferences and Rights of 7% Cumulative Convertible Preferred Stock, filed with

the Secretary of State of the State of Delaware on February 20, 2004 (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on March 1, 2004). 4.2 Form of investor Subscription Agreement (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on March 1, 2004).

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4 .3 Form of warrant issued to investors (incorporated by reference to Exhibit 4.3 to our Current Report on Form 8-K filed on March 1, 2004). 4 .4 Form of placement agent warrant (incorporated by reference to Exhibit 4.4 to our Current Report on Form 8-K filed on March 1, 2004). 4 .5 Securities Purchase and Registration Rights Agreement dated as of August 29, 2007 by and among Majesco Entertainment Company and the Investors named therein (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on September 5, 2007). 4 .6 Form of Common Stock Purchase Warrant issued to investors (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on September 5, 2007). 10 .1 Lease Agreement, dated as of February 2, 1999, by and between 160 Raritan Center Parkway, L.L.C. and Majesco Sales Inc. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on August 11, 2004). 10 .2 Escrow Agreement, dated February 19, 2004, by and among Majesco Holdings Inc., Jesse Sutton, Joseph Sutton, Adam Sutton, Morris Sutton, on behalf of Sarah Sutton and American Stock Transfer and Trust Company (incorporated by reference to Exhibit 10.17 to an Amendment to our Registration Statement on Form S-1 filed on October 19, 2004). 10 .3 Factoring Agreement, dated April 24, 1989, between Majesco Sales Inc. and Rosenthal & Rosenthal, Inc. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on October 22, 2004). 10 .4 Amendment to Factoring Agreement, dated March 18, 1999, between Majesco Sales Inc. and Rosenthal & Rosenthal, Inc. (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on October 22, 2004). 10 .5 Amendment to Factoring Agreement, dated September 30, 2004, between Majesco Sales Inc. and Rosenthal & Rosenthal, Inc. (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on October 22, 2004). 10 .6 Assignment of Monies Due Under Factoring Agreement, dated July 21, 2000, by and among Majesco Sales Inc., Rosenthal & Rosenthal, Inc. and Transcap Trade Finance (incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed on October 22, 2004). 10 .7 Master Purchase Order Assignment Agreement, dated July 21, 2000, between Majesco Sales Inc. and Transcap Trade Finance (incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K filed on October 22, 2004). 10 .8 Sixth Amendment to Master Purchase Order Assignment Agreement, dated September 12, 2003, by and between Transcap Trade Finance and Majesco Sales Inc. (incorporated by reference to Exhibit 10.6 to our Current Report on Form 8-K filed on October 22, 2004). 10 .9 Seventh Amendment to Master Purchase Order Assignment Agreement, dated October 16, 2003, by and between Transcap Trade Finance and Majesco Sales Inc. (incorporated by reference to Exhibit 10.7 to our Current Report on Form 8-K filed on October 22, 2004). 10 .10 Eighth Amendment to Master Purchase Order Assignment Agreement, dated April 14, 2004, by and between Transcap Trade Finance and Majesco Sales Inc. (incorporated by reference to Exhibit 10.8 to our Current Report on Form 8-K filed on October 22, 2004).

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	10 .11
Guaranty and Pledge Agreement, dated July 21, 2000, by and among Jesse Sutton, Joseph Sutton, Morris Sutton, Adam Sutton and Transcap Trade Finance (incorporated by reference to Exhibit 10.9 to our Current Report on Form 8-K filed on October 22, 2004).	
10 .12 Form of Warrant Exercise Agreement, dated December 17, 2004 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on January 7, 2005).	#10 .13
Amended and Restated 2004 Employee, Director and Consultant Incentive Plan (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on June 14, 2005).	#10 .14
Form of Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on June 14, 2005).	#10 .15
Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q filed on June 14, 2005).	#10 .16
Employment Agreement, dated June 27, 2005, by and between Majesco Entertainment Company and John Gross (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on September 14, 2005).	#10 .17
Revised Director Compensation Policy (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q filed on September 14, 2005).	10 .18
Amendment to Factoring Agreement, dated October 18, 2005 (incorporated by reference to Exhibit 10.46 to our Annual Report on Form 10-K filed on February 1, 2006).	#10 .19
Employment Agreement, dated January 31, 2007, between Gui Karyo and Majesco Entertainment Company (incorporated by reference to Exhibit 99.1 to our Current Report on Form 8-K filed on February 6, 2007).	#10 .20
2007 Executive Officer Incentive Bonus Program (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 14, 2007).	10 .21
License and Distribution Agreement dated as of April 13, 2007 by and between Majesco Europe Limited and Eidos Interactive Limited (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on December 7, 2007).	#10 .22
Revised Director Compensation Policy.	*21 .1
Subsidiaries.	*23 .1
Consent of McGladerey & Pullen, LLP.	*23 .2
Consent of Goldstein Golub Kessler LLP	*31 .1
Certification of Principal Executive Officer	*31 .2
Certification of Principal Financial Officer.	*32 .1
Section 1350 Certificate of President and Chief Financial Officer.	

#

Constitutes a management contract, compensatory plan or arrangement. * Filed herewith.

(b) Exhibits.

See (a)(3)

above.

(c)

Financial Statement Schedules.

See (a)(2) above.

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SIGNATURES

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

MAJESCO ENTERTAINMENT COMPANY AND SUBSIDIARY By: /s/ Jesse Sutton, Chief Executive Officer and Director Date: January 29, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

	Signature
Title Date /s/ Jesse Sutton Chief Executive Officer and Director January 29, 2008	Jesse Sutton
/s/ John Gross Chief Financial Officer (Principal Financial and Accounting Officer) January 29, 2008	John Gross
/s/ Allan Grafman Chairman of the Board January 29, 2008	Allan Grafman
/s/ Laurence Aronson Director January 29, 2008	Laurence Aronson
/s/ Louis Lipschitz Director January 29, 2008	Louis Lipschitz
/s/ Mark Stewart Director January 29, 2008	Mark Stewart
/s/ Stephen Wilson Director January 29, 2008	Stephen Wilson

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Consolidated statement of operations — Year ended October 31, 2007, 2006 and 2005	F-5
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Majesco Entertainment Company

We have audited the consolidated balance sheet of Majesco Entertainment Company and subsidiary as of October 31, 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Majesco Entertainment Company and subsidiary as of October 31, 2007 and the results of its operations and its cash flows for year then ended, in conformity with U.S. generally accepted accounting principles.

MCGLADREY & PULLEN, LLP

New York, NY
January 29, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Majesco Entertainment Company

We have audited the accompanying consolidated balance sheet of Majesco Entertainment Company and subsidiary as of October 31, 2006 and the related consolidated statements of operations, shareholders' equity, and cash flows for the years ended October 31, 2006 and 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Majesco Entertainment Company and subsidiary as of October 31, 2006 and the results of its operations and its cash flows for the years ended October 31, 2006 and 2005 in conformity with United States generally accepted accounting principles.

As disclosed in Note 2, the Company changed its method of accounting for stock-based compensation, effective November 1, 2005.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered losses that raise substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also described in Note 1. The financial statements do not include any adjustments that might result from this uncertainty.

GOLDSTEIN GOLUB KESSLER LLP

New York, New York
January 19, 2007

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MAJESCO ENTERTAINMENT COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(dollars in thousands)

October 31,	2007	2006	ASSETS	Current assets:	Cash and cash equivalents	\$ 7,277	\$		
3,794	Due from factor	—	1,189	Accounts and other receivables	670	3,103	Inventory	3,850	2,438
	Capitalized software development costs and license fees, current portion				2,171	1,489	Prepaid expenses		
1,128	2,226	Total current assets	\$ 15,096	\$ 14,239	Property and equipment – net	568	701	Capitalized	
		software development costs and license fees, net of current portion	549	—	Other assets	100	71	Total	
assets	\$ 16,313	\$ 15,011	LIABILITIES AND STOCKHOLDERS' EQUITY			Current liabilities:			
	Accounts payable and accrued expenses	\$ 7,488	\$ 10,911	Share based litigation settlement	2,822	—	Due		
to factor	1,527	—	Inventory financing payables	—	1,390	Advances from customers	425	961	Total
current liabilities	12,262	13,262	Warrant liability	1,460	—	Stockholders' equity:	Common stock –		
\$.001 par value; 250,000,000 shares									
authorized; 28,675,962 and 23,427,462 issued and outstanding at October 31, 2007 and									
October 31, 2006 respectively									
29	23	Additional paid in capital	100,201	94,529	Accumulated deficit				
(97,524)	(92,754)	Accumulated other comprehensive loss	(115)	(49)	Total stockholders' equity	2,591			
1,749	Total liabilities and stockholders' equity	\$ 16,313	\$ 15,011						
See accompanying notes									

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MAJESCO ENTERTAINMENT COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS

(dollars in thousands, except share amounts)

Year Ended October 31,	2007	2006	2005	Net revenues	\$ 50,967	\$ 66,683	\$ 59,716	Cost of sales
Product costs	25,936	32,259	38,384	Software development costs and license fees	7,746			
14,599	22,717	33,682	46,858	61,101	Gross profit (loss)	17,285	19,825	(1,385)
Operating costs and expenses				Product research and development	2,311	2,607	3,415	Selling and
marketing	7,421	10,910	24,160	General and administrative	8,376	11,251	10,937	Depreciation
and amortization	296	430	893	Write-off of accounts receivable	—	—	322	(Gain) loss on settlements
(266)	(4,753)	1,437	Settlement of litigation and related charges, net	2,822	—	—	Loss on impairment	
of software development costs	154	2,375	26,281	Severance	—	—	1,360	21,114
68,805	Operating loss	(3,829)	(2,995)	(70,190)	Other expenses (income)		Interest and	22,820
financing costs, net	1,552	2,371	1,869	Realized/unrealized loss on foreign exchange contract	—	—	48	
Change in fair value of warrants		(611)	—	—	Loss before income taxes	(4,770)	(5,366)	(72,107)
Benefit from income taxes	—	—	(1,207)	Net loss	(4,770)	(5,366)	(70,900)	Fair value charge for
warrants exercised at a discount			1,100	Net loss attributable to common stockholders	\$ (4,770)	\$		
(5,366)	\$ (72,000)	Net loss attributable to common stockholders per share:				Basic and diluted	\$	
(0.20)	\$ (0.24)	\$ (3.48)	Weighted average shares outstanding:			Basic and diluted	23,891,860	
22,616,419	20,686,863							
See accompanying notes								

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MAJESCO ENTERTAINMENT COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

Common Stock									
–\$.001 par value Additional									
Paid In									
Capital Accumulated									
Deficit Accumulated									
Other									
Comprehensive									
Loss Total									
Stockholders'									
Equity	Number	Amount	Balance – October 31, 2004	15,403,704	15	29,194	(15,388)	(36)	
13,785 Issuance of common stock in connection with:									Secondary offering (net of
underwriting discounts, commissions and expenses of \$4,148)		3,682,176	4	41,875	—	—	41,879		
Exercise of warrants at \$5.95 (net of expenses of \$488)		1,171,418	1	7,581	(1,100)	—	6,482		
Exercise of warrants at \$7.00 (net of expenses of \$1,111)		1,889,985	2	12,106	—	—	12,108		Issuance
of common stock as dividend on preferred stock	78,283	—	1,261	—	—	1,261	Non-cash director		
compensation	16,246	—	80	—	—	80	Settlement obligation related to predecessor company	664	\$ —
\$ (1,235)	\$ —	\$ —	\$ (1,235)	Non-cash compensation charges	—	—	1,296	—	1,296
—	—	—	(70,900)	—	(70,900)	Foreign currency translation adjustment	—	—	5
comprehensive loss	—	—	—	—	(70,895)	Balance – October 31, 2005	22,242,476	\$ 22	\$ 92,158
\$ (87,388)	\$ (31)	\$ 4,761	Issuance of common stock in connection with:						
settlement of accounts payable	116,442	—	126	—	—	126	Restricted stock grants – directors	71,393	
—	127	—	—	127	Restricted stock grants – employees	997,151	1	114	—
compensation charges – stock options	—	—	1,818	—	—	1,818	Issuance of warrants for services		
186	186	Net loss	—	—	(5,366)	—	(5,366)	Foreign currency translation adjustment	—
—	—	(18)	(18)	Total comprehensive loss	—	—	—	(5,384)	Balance – October 31, 2006
23,427,462	\$ 23	\$ 94,529	\$ (92,754)	\$ (49)	\$ 1,749	Issuance of common stock in connection with:			
			settlement of accounts payable	238,562	—	365	—	—	365
grants – employees and directors	727,438	1	732	—	—	733	Exercise of stock options.	33,334	
49	—	—	49	Non-cash compensation charges – stock options	—	—	773	—	773
placement of securities	4,244,335	4	3,743	—	—	3,747	Issuance of common stock for assets	4,831	
1	10	—	—	11	Net loss	—	—	—	(4,770)
—	—	—	—	(66)	(66)	Total comprehensive loss	—	—	—
2007	28,675,962	\$ 29	\$ 100,201	\$ (97,524)	\$ (115)	\$ 2,591	(4,836)	Balance – October 31,	

See accompanying notes

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MAJESCO ENTERTAINMENT COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(dollars in thousands)

Year Ended October 31,												2007												2006												2005												CASH FLOWS FROM OPERATING 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MAJESCO ENTERTAINMENT COMPANY AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The following financial statements present the financial results of Majesco Entertainment Company and its wholly owned UK subsidiary (“Majesco” or “Company”) on a consolidated basis.

On April 4, 2005, the Company and its principal subsidiary Majesco Sales Inc. merged and in connection with this merger, changed its name to Majesco Entertainment Company.

2. PRINCIPAL BUSINESS ACTIVITY

The Company is a provider of interactive entertainment products. The Company’s offerings include video game software and other digital entertainment products.

The Company’s products provide it with opportunities to capitalize on the large and growing installed base of interactive entertainment platforms and an increasing number of interactive entertainment enthusiasts. The Company sells its products directly and through resellers primarily to U.S. retail chains, including Best Buy, GameStop/Electronics Boutique, Circuit City, Target, Toys “R” Us and Wal-Mart. Majesco also sells products internationally through partnerships with international publishers. The Company has developed retail and distribution network relationships over its more than 20-year history.

Majesco provides offerings for most major interactive entertainment hardware platforms, including Nintendo’s Game Boy Advance, or GBA, DS, Micro, GameCube and Wii, Sony’s PlayStation 2, or PS2, and PlayStation Portable, or PSP, Microsoft’s Xbox and Xbox 360, and the personal computer, or PC.

The Company’s offerings include video game software and other digital entertainment products. The Company’s operations involve similar products and customers worldwide. The products are developed and sold domestically and internationally. The Company is centrally managed and the chief operating decision makers, the chief executive and other officers, use consolidated financial information supplemented by sales information by product category, major product title and platform for making operational decisions and assessing financial performance. Accordingly, the Company operates in a single segment. Net sales for the Company in the United States were \$43.6 million or 85.5% and \$56.8 million or 85.2% of net sales for the years ended October 31, 2007 and 2006, respectively. Net sales in Europe were \$7.4 million or 14.5% and \$9.9 million or 14.8% of net sales for the years ended October 31, 2007 and 2006, respectively. There were no material sales in Europe for the corresponding periods in 2005.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary located in the United Kingdom. Significant intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition. The Company recognizes revenue upon shipment of its product when title and risk of loss are transferred and persuasive evidence of an arrangement exists. In order to recognize revenue, the Company must not have any continuing obligations and it must also be probable that the Company will collect the accounts receivable. Revenues, including sales to resellers and distributors, are recognized when these conditions are met.

The Company generally sells its products on a no-return basis, although in certain instances, the Company may provide price protection or other allowances on certain unsold products. Price protection, when granted and applicable, allows customers a partial credit against amounts they owe the Company with respect to merchandise unsold by them. Revenue is recognized net of estimates of these allowances.

The Company estimates potential future product price protection and other allowances related to current period product revenue. The Company analyzes historical experience, current sell through of

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MAJESCO ENTERTAINMENT COMPANY AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

retailer inventory of the Company's products, current trends in the video game market, the overall economy, changes in customer demand and acceptance of the Company's products and other related factors when evaluating the adequacy of price protection and other allowances.

Sales incentives or other consideration given by the Company to customers that are considered adjustments of the selling price of its products, such as rebates and product placement fees, are reflected as reductions of revenue. Sales incentives and other consideration that represent costs incurred by the Company for assets or services received, such as the appearance of the Company's products in a customer's national circular ad, are reflected as selling and marketing expenses.

Shipping and handling, which consist principally of transportation charges incurred to move finished goods to customers, amounted to \$0.7 million, \$0.5 million and \$1.1 million and are included in selling expenses for the years ended October 31, 2007, 2006 and 2005, respectively.

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. Prepaid license fees represent license fees to holders for the use of their intellectual property rights in the development of our products. Minimum guaranteed royalty payments for intellectual property licenses are initially recorded as an asset (prepaid license fees) 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 prepaid license fees 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 prepaid license fees 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.

Significant management judgments and estimates are utilized in the assessment of when technological feasibility is established, as well as in the ongoing assessment of the recoverability of capitalized costs. If revised forecasted or actual product sales are less than and/or revised forecasted or actual costs are greater than the original forecasted amount utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge.

During the twelve months ended October 31, 2005, we charged operations \$26.3 million to write-off all capitalized costs related to video games for which development was stopped. We also charged \$10.5 million to cost of sales to

recognize impairments in the carrying value for games released for which sales s compared to the second quarter 2007 to bring our six-month tax rate in line with the projected full year tax rate, and lower pre-tax income from jurisdictions (primarily the U.S.) that are taxed at higher than our average rate, partially offset by the absence of the tax benefit related to the 2007 sale of our investment in SES.

The provision for income taxes was \$0.1 billion for the first six months of 2008 (effective tax rate of 1.9%), compared with \$0.7 billion for the first six months of 2007 (effective tax rate of 12.1%). The tax rate decreased primarily as a

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result of lower pre-tax income from jurisdictions (primarily the U.S.) that are taxed at higher than our average rate, increased benefits from lower-taxed global operations, and a tax benefit related to the mark-to-market of our Genpact investment, partially offset by the absence of the tax benefit related to the 2007 sale of our investment in SES.

Segment Operations

Operating segments comprise our three businesses focused on the broad markets they serve: GE Commercial Finance, GE Money and GE Infrastructure. For segment reporting purposes, certain financial services businesses including Aviation Financial Services, Energy Financial Services and Transportation Finance are reported in the GE Infrastructure segment because GE Infrastructure actively manages such businesses and reports their results for internal performance measurement purposes.

GECC corporate items and eliminations include the effects of eliminating transactions between operating segments; results of our insurance activities remaining in continuing operations; underabsorbed corporate overhead; certain non-allocated amounts determined by the Chief Executive Officer; and a variety of sundry items. GECC corporate items and eliminations is not an operating segment. Rather, it is added to operating segment totals to reconcile to consolidated totals on the financial statements.

The Chief Executive Officer allocates resources to, and assesses the performance of operations at the consolidated GE-level. GECC operations are a portion of those segments. We present below in their entirety the three GE segments that include financial services operations. We also provide a one-line reconciliation to GECC-only results, the most significant component of which is the elimination of GE businesses that are not financial services businesses. In addition to providing information on GE segments in their entirety, we have also provided supplemental information for certain businesses within the GE segments. Our Chief Executive Officer does not separately assess the performance of, or allocate resources among, these product lines.

Segment profit is determined based on internal performance measures used by the Chief Executive Officer to assess the performance of each business in a given period. In connection with that assessment, the Chief Executive Officer may exclude matters such as charges for restructuring; rationalization and other similar expenses; in-process research and development and certain other acquisition-related charges and balances; technology and product development costs; certain gains and losses from dispositions; and litigation settlements or other charges, responsibility for which preceded the current management team.

Segment profit always excludes the effects of principal pension plans, results reported as discontinued operations and accounting changes. Segment profit excludes or includes interest and other financial charges and income taxes according to how a particular segment's management is measured – excluded in determining segment profit, which we sometimes refer to as “operating profit,” for GE Healthcare, GE NBC Universal, GE Industrial Products and the industrial businesses of the GE Infrastructure segment; included in determining segment profit, which we sometimes refer to as “net earnings,” for GE Commercial Finance, GE Money, and the financial services businesses of the GE Infrastructure segment (Aviation Financial Services, Energy Financial Services and Transportation Finance).

We have reclassified certain prior-period amounts to conform to the current-period's presentation.

Summary of Operating Segments

(In millions)	Three months ended June 30 (Unaudited)		Six months ended June 30 (Unaudited)	
	2008	2007	2008	2007
Revenues				
GE Commercial Finance	\$ 9,259	\$ 8,138	\$ 17,825	\$ 16,169
GE Money	6,629	6,276	13,037	12,234
GE Infrastructure	17,552	13,934	32,512	26,136
Total segment revenues	33,440	28,348	63,374	54,539
GECC corporate items and eliminations	202	339	510	790
Total revenues	33,642	28,687	63,884	55,329
Less portion of GE revenues not included in GECC	(15,442)	(12,614)	(28,516)	(23,479)
Total revenues in GECC	\$ 18,200	\$ 16,073	\$ 35,368	\$ 31,850
Segment profit				
GE Commercial Finance	\$ 1,390	\$ 1,304	\$ 2,548	\$ 2,744
GE Money	1,056	1,158	2,051	2,381
GE Infrastructure	3,174	2,563	5,762	4,771
Total segment profit	5,620	5,025	10,361	9,896
GECC corporate items and eliminations(a)	(92)	(310)	(267)	(389)
Less portion of GE segment profit not included in GECC	(2,778)	(2,253)	(4,853)	(4,165)
Earnings in GECC from continuing operations	2,750	2,462	5,241	5,342
Loss in GECC from discontinued operations, net of taxes	(336)	(254)	(392)	(655)
Total net earnings in GECC	\$ 2,414	\$ 2,208	\$ 4,849	\$ 4,687

(a) Included restructuring and other charges of \$0.1 billion for the first six months of 2008, compared with \$0.2 billion for the second quarter and first six months of 2007, primarily related to GE Money and GE Commercial Finance.
See accompanying notes to condensed, consolidated financial statements.

GE Commercial Finance

(In millions)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Revenues	\$ 9,259	\$ 8,138	\$ 17,825	\$ 16,169
Less portion of GE Commercial Finance not included in GECC	(34)	(244)	(187)	(545)
Total revenues in GECC	\$ 9,225	\$ 7,894	\$ 17,638	\$ 15,624
Segment profit	\$ 1,390	\$ 1,304	\$ 2,548	\$ 2,744
Less portion of GE Commercial Finance not included in GECC	(55)	(119)	(75)	(306)
Total segment profit in GECC	\$ 1,335	\$ 1,185	\$ 2,473	\$ 2,438

(In millions)	At June 30,		At June 30,		At December 31,	
	2008	2007	2007	2007	2007	2007
Total assets	\$ 338,546	\$ 277,807	\$ 310,412			
Less portion of GE Commercial Finance not included in GECC	(1,637)	10,211	(3,453)			
Total assets in GECC	\$ 336,909	\$ 288,018	\$ 306,959			

(In millions)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Revenues in GE Capital Solutions	\$ 3,821	\$ 3,465	\$ 7,455	\$ 6,828
Real Estate	1,964	1,557	3,847	3,172
Segment profit in GE Capital Solutions	\$ 503	\$ 463	\$ 903	\$ 858
Real Estate	484	476	960	1,040

(In millions)	At June 30,		At June 30,		At December 31,	
	2008	2007	2007	2007	2007	2007
Assets in GE Capital Solutions	\$ 124,040	\$ 115,167	\$ 122,527			
Real Estate	90,611	62,057	79,285			

GE Commercial Finance revenues increased 14% and net earnings increased 7% compared with the second quarter of 2007. Revenues for the second quarter of 2008 included \$0.5 billion from acquisitions. Revenues for the quarter also increased \$0.7 billion compared with the second quarter of 2007 as a result of the weaker U.S. dollar (\$0.4 billion) and organic revenue growth (\$0.3 billion). Net earnings increased by \$0.1 billion in the second quarter of 2008, resulting from acquisitions (\$0.1 billion), higher investment income (\$0.1 billion) and the weaker U.S. dollar (\$0.1 billion), partially offset by core declines (\$0.2 billion), including an increase of \$0.1 billion in the provision for losses on

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financing receivables. These results also included a gain on sale of a portion of our investment in Penske Truck Leasing Co., L.P. (\$0.1 billion).

GE Commercial Finance revenues increased 10% and net earnings decreased 7% compared with the first six months of 2007. Revenues for the first six months of 2008 and 2007 included \$1.1 billion and \$0.2 billion from acquisitions, respectively, and in 2008 were reduced by \$0.2 billion as a result of dispositions. Revenues for the first six months also increased \$1.0 billion compared with the first six months of 2007 as a result of the weaker U.S. dollar (\$0.8 billion) and organic revenue growth (\$0.2 billion). Net earnings decreased by \$0.2 billion in the first six months of 2008, resulting from core declines (\$0.6 billion), including an increase of \$0.1 billion in the provision for losses on financing receivables, partially offset by acquisitions (\$0.2 billion), the weaker U.S. dollar (\$0.1 billion) and higher securitization and investment income (\$0.1 billion). Net earnings included the effect of higher mark-to-market losses and other-than-temporary impairments (\$0.3 billion), and Genpact mark-to-market gains (\$0.5 billion), which were largely offset by the absence of the effects of the 2007 SES transaction (\$0.4 billion).

Real Estate assets at June 30, 2008 increased \$11.3 billion, or 14%, from December 31, 2007, including \$12.1 billion, or 33%, attributable to an increase in real estate loans, slightly offset by a decline in real estate equity investments. During the second quarter of 2008, we sold real estate assets with a book value totaling \$1.8 billion, which resulted in net earnings of \$0.4 billion. Real estate net earnings were consistent with the second quarter of 2007, as increases in interest income from real estate loans (\$0.2 billion) and net rental revenue (\$0.1 billion) were partially offset by higher interest expense (\$0.3 billion), and net earnings from the sale of real estate investments were slightly higher.

During the first six months of 2008, we sold real estate assets with a book value totaling \$3.5 billion, which resulted in net earnings of \$0.9 billion. Real Estate net earnings declined \$0.1 billion compared to the first six months of 2007, as increases in interest income from real estate loans (\$0.4 billion) and net rental revenue (\$0.3 billion) were offset by higher interest expense (\$0.6 billion) and provisions for losses (\$0.1 billion). Net earnings from the sale of real estate investments were slightly lower as a result of increasingly difficult market conditions experienced in the first six months of 2008. In the normal course of our business operations, we sell certain real estate equity investments when it is economically advantageous for us to do so. However, as real estate values are affected by certain forces beyond our control (e.g. market fundamentals and demographic conditions), it is difficult to predict with certainty the level of future sales or sales prices.

GE Money

(In millions)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Revenues	\$ 6,629	\$ 6,276	\$ 13,037	\$ 12,234
Less portion of GE Money not included in GECC	—	—	—	—
Total revenues in GECC	\$ 6,629	\$ 6,276	\$ 13,037	\$ 12,234
Segment profit	\$ 1,056	\$ 1,158	\$ 2,051	\$ 2,381
Less portion of GE Money not included in GECC	(5)	(19)	(7)	(41)
Total segment profit in GECC	\$ 1,051	\$ 1,139	\$ 2,044	\$ 2,340

(In millions)	At		December 31, 2007
	June 30, 2008	June 30, 2007	
Total assets	\$ 221,192	\$ 189,258	\$ 209,174
Less portion of GE Money not included in GECC	135	955	100
Total assets in GECC	\$ 221,327	\$ 190,213	\$ 209,274

GE Money revenues increased 6% and net earnings decreased 9% compared with the second quarter of 2007. Revenues for the second quarter of 2008 included \$0.1 billion from acquisitions and were reduced by \$0.1 billion as a result of dispositions. Revenues for the quarter also increased \$0.3 billion compared with the second quarter of 2007 as a result of the weaker U.S. dollar (\$0.5 billion), partially offset by organic revenue declines (\$0.1 billion), primarily as a result of lower securitization activity. The decrease in net earnings resulted primarily from core declines (\$0.2 billion) (including the effects of higher delinquencies of \$0.1 billion) and lower securitization income (\$0.1 billion), partially offset by growth in lower-taxed earnings from global operations (\$0.2 billion).

GE Money revenues increased 7% and net earnings decreased 14% compared with the first six months of 2007. Revenues for the first six months of 2008 included \$0.2 billion from acquisitions and \$0.4 billion from the sale of our CPS business and were reduced by \$0.1 billion from dispositions. Revenues for the first six months also increased \$0.3 billion compared with the first six months of 2007 as a result of the weaker U.S. dollar (\$0.8 billion) and organic revenue declines (\$0.5 billion), primarily as a result of lower securitization activity. The decrease in net earnings resulted primarily from core declines (\$0.5 billion) (including lower results in the U.S. reflecting the effects of higher delinquencies of \$0.2 billion) and lower securitization income (\$0.4 billion) (including declines in the fair value of retained interest in securitizations of \$0.1 billion). These decreases were partially offset by growth in lower-taxed earnings from global operations (\$0.3 billion), the gain on the sale of our CPS business (\$0.2 billion) and as a result of the weaker U.S. dollar (\$0.1 billion).

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GE Infrastructure

(In millions)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Revenues	\$ 17,552	\$ 13,934	\$ 32,512	\$ 26,136
Less portion of GE Infrastructure not included in GECC	(15,408)	(12,370)	(28,329)	(22,934)
Total revenues in GECC	\$ 2,144	\$ 1,564	\$ 4,183	\$ 3,202
Segment profit	\$ 3,174	\$ 2,563	\$ 5,762	\$ 4,771
Less portion of GE Infrastructure not included in GECC	(2,718)	(2,115)	(4,771)	(3,818)
Total segment profit in GECC	\$ 456	\$ 448	\$ 991	\$ 953
Revenues in GE				
Aviation	\$ 4,923	\$ 4,079	\$ 9,243	\$ 7,530
Aviation Financial Services	1,081	1,088	2,312	2,337
Energy	7,003	5,195	12,643	9,862
Energy Financial Services	989	417	1,759	741
Oil & Gas	1,895	1,821	3,430	2,969
Transportation	1,202	1,107	2,350	2,235
Segment profit in GE				
Aviation	\$ 914	\$ 828	\$ 1,689	\$ 1,527
Aviation Financial Services	252	266	639	654
Energy	1,222	895	2,129	1,584
Energy Financial Services	178	169	323	270
Oil & Gas	255	189	416	291
Transportation	241	217	495	431

GE Infrastructure revenues increased 26%, or \$3.6 billion, in the second quarter of 2008 on higher volume (\$2.3 billion), higher prices (\$0.4 billion) and the weaker U.S. dollar (\$0.3 billion) at the industrial businesses of the segment. The increase in volume reflected the increased sales of thermal and wind equipment and services at Energy; the effects of acquisitions and increased sales of engine services and commercial engines at Aviation; increases in both equipment and chemical sales at Water; and increased equipment sales at Transportation; partially offset by lower volume at Oil & Gas. The effects of the weaker U.S. dollar were primarily at Energy and Oil & Gas, while higher prices were principally at Energy and Aviation. Revenues also increased as a result of financial services' acquisitions (\$0.6 billion), primarily at Energy Financial Services.

Segment profit rose 24%, or \$0.6 billion, as higher volume (\$0.4 billion), higher prices (\$0.4 billion) and productivity (\$0.1 billion) were partially offset by higher material and other costs (\$0.3 billion) at the industrial businesses of the segment. The increase in volume primarily related to Energy, Aviation and Water.

GE Infrastructure revenues rose 24% to \$32.5 billion for the six months ended June 30, 2008, on higher volume (\$4.2 billion), higher prices (\$0.6 billion) and the weaker U.S. dollar (\$0.6 billion) at the industrial businesses of the segment. The increase in volume reflected the effects of acquisitions at Aviation and Oil & Gas; increased sales of

thermal and wind equipment and services at Energy; military and commercial engines and services at Aviation; both equipment and chemical sales at Water; and increased equipment sales at Transportation. Price increases were primarily at Energy and Aviation, while the effects of the weaker U.S. dollar were primarily at Energy and Oil & Gas.

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Revenues for the six months also increased as a result of financial services' acquisitions (\$0.9 billion), primarily at Energy Financial Services.

Segment profit for the first six months of 2008 rose 21% to \$5.8 billion, compared with \$4.8 billion in 2007, as higher volume (\$0.8 billion), higher prices (\$0.6 billion) and productivity (\$0.1 billion) were partially offset by higher material and other costs (\$0.5 billion) at the industrial businesses of the segment. Volume increases were primarily at Energy, Aviation and Water. Higher material and other costs were primarily at Aviation and Energy.

Discontinued Operations

(In millions)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Loss in GECC from discontinued operations, net of taxes	\$ (336)	\$ (254)	\$ (392)	\$ (655)

Discontinued operations is comprised of our Japanese personal loan business (Lake) and our Japanese mortgage and card businesses, excluding our minority ownership in GE Nissen Credit Co., Ltd. (GE Money Japan), our U.S. mortgage business (WMC), GE Life, and Genworth Financial, Inc. Results of these businesses are reported as discontinued operations for all periods presented.

Loss from discontinued operations, net of taxes, for the second quarter and first six months of 2008, primarily reflected the estimated incremental loss on disposal (\$0.2 billion) and the loss from operations (\$0.1 billion) at GE Money Japan.

Loss from discontinued operations, net of taxes, for the second quarter of 2007, reflected the loss from operations at WMC (\$0.2 billion) and GE Money Japan (\$0.1 billion).

Loss from discontinued operations, net of taxes, for the first six months of 2007, reflected the loss from operations at WMC (\$0.6 billion) and GE Money Japan (\$0.1 billion).

For additional information related to discontinued operations, see Note 2 to the condensed, consolidated financial statements.

B. Statement of Financial Position

Overview of Financial Position

Major changes in our financial position resulted from the following:

- During the first six months of 2008, we completed the acquisition of Merrill Lynch Capital and Bank BPH.
-

The U.S. dollar was weaker at June 30, 2008, than at December 31, 2007, increasing the translated levels of our non-U.S. dollar assets and liabilities.

Effective January 1, 2008, we adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements, for all financial instruments and non-financial

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instruments accounted for at fair value on a recurring basis. Adoption of SFAS 157 did not have a material effect on our financial position or results of operations. Illiquidity in the credit markets experienced during the first six months of this year contributed to the amount of our reported Level 3 instruments, primarily in our available-for-sale investment portfolios. At June 30, 2008, the aggregate amount of instruments requiring fair value measurement on a recurring basis included in Level 3 represented approximately 1% of the aggregate amount of total assets and liabilities. Of the aggregate amount of total financial instruments requiring recurring fair value measurement, approximately 35% are included in Level 3. The amount we report in Level 3 in future periods will be directly affected by market conditions. See Note 8 to the condensed, consolidated financial statements for further information related to the adoption of SFAS 157.

Overview of Our Cash Flow

Our cash and equivalents aggregated \$15.5 billion at June 30, 2008, compared with \$12.8 billion at June 30, 2007. GECC cash from operating activities (CFOA) totaled \$12.4 billion at June 30, 2008, compared to \$10.7 billion at June 30, 2007. The increase is primarily the result of increased collections of interest from loans and finance leases, rental income from operating leases, increases in security deposits, and decreases in provision for taxes, partially offset by increases in interest payments on borrowings.

Our principal use of cash has been investing in assets to grow our businesses. Of the \$38.8 billion that we invested during the six months of 2008, \$27.7 billion was used for additions to financing receivables; \$6.5 billion was used to invest in new equipment, principally for lease to others; and \$12.8 billion was used for acquisitions of new businesses, the largest of which were Merrill Lynch Capital and Bank BPH.

We paid dividends to General Electric Capital Services, Inc. (GECS), our parent company, through a distribution of our retained earnings, including proceeds from certain business sales. Dividends paid to GECS totaled \$2.0 billion in the first six months of 2008 compared to \$3.7 billion in the first six months of 2007. There were no special dividends paid to GECS in the first six months of 2008, compared to \$1.8 billion in the first six months of 2007. During the first six months of 2008, our borrowings with maturities of 90 days or less have increased by \$8.4 billion. New borrowings of \$61.4 billion having maturities longer than 90 days were added during the six months of 2008, while \$34.5 billion of such long-term borrowings were retired.

Based on past performance and current expectations, in combination with the financial flexibility that comes with a strong balance sheet and the highest credit ratings, we believe that we are in a sound position to grow dividends to our parent company and continue making selective investments for long-term growth.

C. Financial Services Portfolio Quality

Investment securities comprise mainly investment-grade debt securities supporting obligations to holders of guaranteed investment contracts. Investment securities were \$22.2 billion at June 30, 2008, compared with \$20.6 billion at December 31, 2007. Of the amount at June 30, 2008, we held residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities with estimated fair values of \$4.2 billion and \$1.6 billion, respectively. Such amounts included unrealized losses of \$0.7 billion and \$0.1 billion, respectively. At June 30, 2008, of the RMBS amount, we had approximately \$1.6 billion of exposure to subprime credit, supporting our guaranteed investment contracts; \$1.4 billion of this amount was insured by monoline insurers (Monolines). Monolines provide credit enhancement for certain of our investment securities. At June 30, 2008, our investment securities insured by Monolines were \$2.9 billion. Although several of the Monolines have been downgraded by the rating agencies, a majority of this amount was insured by investment-grade Monolines.

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At June 30, 2008, unrealized losses on investment securities totaled \$1.4 billion. Of this amount, \$0.7 billion were aged 12 months or more. We regularly review investment securities for other-than-temporary impairment based on criteria that include the extent to which cost exceeds market value, the duration of that market decline, our intent and ability to hold to recovery and the financial health and specific prospects for the issuer. Of securities with unrealized losses at June 30, 2008, an insignificant amount was at risk of being charged to earnings in the next 12 months. Continued uncertainty in the capital markets may cause increased levels of losses. Other-than-temporary impairment losses were \$0.1 billion for the first six months of 2008, compared with an insignificant amount in 2007. Investments in retained interests decreased by \$0.1 billion in the first six months of 2008 reflecting declines in fair value accounted for in accordance with SFAS 155, Accounting for Certain Hybrid Financial Instruments, that became effective at the beginning of 2007.

Financing receivables is our largest category of assets and represents one of our primary sources of revenues. The portfolio of financing receivables, before allowance for losses, was \$426.2 billion at June 30, 2008, and \$382.7 billion at December 31, 2007. The related allowance for losses at June 30, 2008, amounted to \$4.5 billion, compared with \$4.2 billion at December 31, 2007, representing our best estimate of probable losses inherent in the portfolio. A discussion of the quality of certain elements of the financing receivables portfolio follows. For purposes of that discussion, “delinquent” receivables are those that are 30 days or more past due; and “nonearning” receivables are those that are 90 days or more past due (or for which collection has otherwise become doubtful).

Financing receivables, before allowance for losses, increased \$43.5 billion from December 31, 2007, primarily as a result of core growth (\$35.4 billion), acquisitions (\$18.6 billion) and the weaker U.S. dollar (\$7.7 billion), partially offset by securitization and sales (\$20.6 billion) and dispositions (\$3.3 billion). Related nonearning receivables were \$6.5 billion (1.5% of outstanding receivables) at June 30, 2008, compared with \$5.4 billion (1.4% of outstanding receivables) at year-end 2007. Nonearning receivables exclude loans held for sale.

Delinquency rates on managed GE Commercial Finance equipment loans and leases and managed GE Money financing receivables follow.

	Delinquency rates at		
	June 30, 2008(a)	December 31, 2007	June 30, 2007
GE Commercial Finance	1.48%	1.21%	1.28%
GE Money	5.92	5.38	5.22
U.S.	5.55	5.52	4.50
Non-U.S.	6.07	5.32	5.50

(a) Subject to update.

Delinquency rates at GE Commercial Finance increased from December 31, 2007, and June 30, 2007, to June 30, 2008, primarily as a result of the inclusion of the Sanyo acquisition in Japan, which contributed an additional nine basis points at June 30, 2008, as well as deterioration in our U.S. commercial middle market and certain European portfolios.

Delinquency rates at GE Money increased from December 31, 2007, and June 30, 2007, to June 30, 2008, primarily as a result of continued deterioration in our U.S. portfolio and the effects of tighter credit conditions in our secured

financing business in the U.K. In response, GE Money will continue to tighten underwriting standards related to the U.S. and U.K. consumers and will continue its process of regularly reviewing and adjusting reserve levels in response

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to when it is probable that losses have been incurred in the portfolio. This environment may result in higher provisions for loan losses and could adversely affect results of operations at GE Money.

Other assets comprise mainly real estate investments, equity and cost method investments and assets held for sale. Other assets totaled \$81.7 billion at June 30, 2008, compared with \$82.5 billion at December 31, 2007. Of the amount at June 30, 2008, we had cost method investments totaling \$2.7 billion. Cost method investments include our investment in preferred and common stock, \$0.3 billion and an insignificant amount, respectively, of FGIC Corporation (FGIC), a monoline credit insurer. During 2008, credit rating agencies downgraded FGIC; following the downgrades, various alternatives were being considered. During the first quarter of 2008, we recognized an other-than-temporary impairment on FGIC common stock. No such impairment occurred during the second quarter of 2008. We continue to monitor our investment in FGIC closely, including review for further impairment.

D. Borrowings

During the first six months of 2008, GECC and GECC affiliates issued \$59.6 billion of senior, unsecured long-term debt. This debt was both fixed and floating rate and was issued to institutional and retail investors in the U.S. and 17 other global markets. Maturities for these issuances ranged from one to 30 years. We used the proceeds for repayment of maturing long-term debt and to fund acquisitions and organic growth. We anticipate that we will issue approximately \$20 to \$25 billion of additional long-term debt during the remainder of 2008, mostly to repay maturing long-term debt. The ultimate amount we issue will depend on our needs and on the markets.

E. New Accounting Standard

On December 4, 2007, the FASB issued SFAS 141R, Business Combinations, which we will adopt on January 1, 2009. This standard will significantly change the accounting for business acquisitions both during the period of the acquisition and in subsequent periods. Among the more significant changes in the accounting for acquisitions are the following:

- Transaction costs will generally be expensed. Certain such costs are presently treated as costs of the acquisition.
- In-process research and development (IPR&D) will be accounted for as an asset, with the cost recognized as the research and development is realized or abandoned. IPR&D is presently expensed at the time of the acquisition.
- Contingencies, including contingent consideration, will generally be recorded at fair value with subsequent adjustments recognized in operations. Contingent consideration is presently accounted for as an adjustment of purchase price.
- Decreases in valuation allowances on acquired deferred tax assets will be recognized in operations. Such changes previously were considered to be subsequent changes in consideration and were recorded as decreases in goodwill.

Generally, the effects of SFAS 141R will depend on future acquisitions.

Item 4. Controls and Procedures

Under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures and concluded that our disclosure controls and procedures were effective as of June 30, 2008.

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Except as described in Part II, Item 1. "Legal Proceedings," there were no changes in our internal control over financial reporting during the period ended June 30, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

As previously reported, in January 2005 the staff of the U.S. Securities and Exchange Commission (SEC) informed GE that it had commenced an investigation and requested certain documents and information with respect to the use of hedge accounting for derivatives by GE and us. In August 2005, the SEC staff advised GE that the SEC had issued a formal order of investigation in the matter. The SEC staff has taken testimony in this matter and has requested information about other GE accounting policies and practices, including items related to revenue recognition and our cash flow presentations.

In the course of responding to SEC inquiries, GE recently identified certain items not previously corrected in GE's Consolidated Statement of Cash Flows. These items primarily relate to elimination of the cash flow effects of intercompany transactions between GE and General Electric Capital Services, Inc. (GECS) and include effects of clerical errors, errors in elimination classifications among operating, investing and financing activities and transaction-reporting errors involving identification of intercompany transactions. GE reflected the adjustments for these items in prior period financial information reported in its Form 10-Q. These errors had no effects on GE's total cash or cash equivalents, nor did they affect GE's financial position or results of operations. GE also adjusted the prior period financial information for items (primarily involving failures to eliminate certain types of intercompany transactions from consolidated cash flows) that GE had previously identified and determined to be immaterial with the concurrence of KPMG. In Exhibit 99(b) to GE's Form 10-Q, GE provided the effect of these adjustments on its Statement of Cash Flows for each of the years 2005, 2006 and 2007, the year to date periods for 2007 and the first quarter of 2008. We also identified an immaterial item not previously corrected in our Statement of Cash Flows. This item relates to an error in classification within investing activities. We have provided the effects of this adjustment on our Statement of Cash Flows in the prior period financial information in this Form 10-Q. This error had no effect on our total cash or cash equivalents, nor did they affect our financial position on results of operations.

We and GE and its audit committee have evaluated the circumstances surrounding the effects of these items on our previously reported financial statements, and have determined that the adjustments relating to these items are not material to our financial statements.

We and GE also have reviewed our internal control over financial reporting with respect to the items identified above and have concluded that the internal control deficiencies implicated by these items constitute a significant deficiency in our internal control over financial reporting, but do not (individually or in the aggregate with other identified deficiencies) constitute a material weakness in our internal control. In response to these items, we and GE have initiated a number of internal control enhancements, including enhancing our process documentation, review processes and training as it relates to the preparation of the Consolidated Statement of Cash Flows.

We and GE continue to cooperate with the ongoing SEC investigation and to discuss the investigation and issues arising in that investigation and our internal review of certain accounting matters with the SEC staff with a goal of completing our review and resolving these matters as soon as practicable. Senior management and GE's audit committee are monitoring these matters closely with the assistance of outside counsel and accounting experts. We and

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GE and its audit committee are committed to addressing issues that arise and to providing transparent disclosure to our investors concerning these matters.

As previously reported, the Antitrust Division of the Department of Justice (DOJ) and the SEC are conducting an industry-wide investigation of marketing and sales of guaranteed investment contracts, and other financial instruments, to municipalities. In connection with this investigation, two of our subsidiaries have received subpoenas and requests for information in connection with the investigation: GE Funding CMS and GE Funding Capital Market Services, Inc. (GE FCMS). We have cooperated and continue to cooperate fully with the SEC and DOJ in this matter. On July 21, 2008, GE FCMS received a "Wells notice" advising that the SEC staff is considering recommending that the SEC bring a civil injunctive action or institute an administrative proceeding in connection with the bidding for various financial instruments associated with municipal securities by certain former employees of GE FCMS. GE FCMS is one of several industry participants that received Wells notices during 2008. GE FCMS understands that it will have an opportunity to respond to the Wells notice and to discuss the matter with the staff before any recommendation is made to the Commission.

In June 2008, the Environmental Protection Agency issued a notice of violation alleging non-compliance with the Clean Air Act at a power cogeneration plant in Homer City, PA. The plant is operated exclusively by EME Homer City Generation L.P., and is owned and leased to EME Homer City Generation L.P. by our subsidiaries. The notice of violation does not indicate a specific penalty amount but makes reference to statutory fines. We believe that we have meritorious defenses and that EME Homer City Generation L.P. is obligated to indemnify our subsidiaries and pay all costs associated with this matter.

Item 6. Exhibits

- Exhibit 12 Computation of Ratio of Earnings to Fixed Charges.*
- Exhibit Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities
- 31(a) Exchange Act of 1934, as Amended.*
- Exhibit Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities
- 31(b) Exchange Act of 1934, as Amended.*
- Exhibit 32 Certification Pursuant to 18 U.S.C. Section 1350.*
- Exhibit 99 Financial Measures That Supplement Generally Accepted Accounting
- Principles.*

* Filed electronically herewith.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

General Electric Capital Corporation
(Registrant)

July 25, 2008
Date

/s/ Jamie S. Miller
Jamie S. Miller
Senior Vice President and Controller
Duly Authorized Officer and Principal Accounting Officer

