

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

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FILER

EGAMES INC

CIK: **948703** | IRS No.: **232694937** | State of Incorpor.: **PA** | Fiscal Year End: **0630**
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SIC: **7372** Prepackaged software

Mailing Address	Business Address
2000 CABOT BLVD SUITE 110 LANGHORNE PA 19047-1833	2000 CABOT BLVD SUITE 110 LANGHORNE PA 19047-1833 2157506606

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): May 2, 2005

eGames, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania

0-27102

23-2694937

(State or other jurisdiction
of incorporation)

(Commission File Number)

(IRS Employer
Identification No.)

2000 Cabot Blvd. West, Suite 110, Langhorne, PA

19047-1833

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (215) 750-6606

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to
simultaneously satisfy the filing obligation of the registrant under any of the
following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities
Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange
Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the

Exchange Act (17 CFR 240.14d-2(b))

[] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

On May 2, 2005, eGames, Inc. (the "Company") issued a press release announcing its results for the third quarter ended March 31, 2005. The full text of the press release is set forth in Exhibit 99.1 hereto.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits.

The following document is filed as an exhibit to this report.

99.1 Press Release dated May 2, 2005.

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 hereunto duly authorized.

eGames, Inc.

By:/s/ Thomas W. Murphy

Thomas W. Murphy, Vice President
and Chief Financial Officer

Dated: May 2, 2005

eGames Announces Fiscal 2005 Third Quarter Financial Results

Langhorne, Pa., - May 2, 2005 (PRIMEZONE) - eGames, Inc. (OTCBB: EGAM), a publisher of Family Friendly(TM), affordable consumer entertainment PC software games, today announced financial results for the three and nine months ended March 31, 2005.

Financial Results:

 For the three months ended March 31, 2005, net sales decreased by \$693,000, or 32%, to \$1,460,000, compared to \$2,153,000 in net sales for the three months ended March 31, 2004. For the quarter ended March 31, 2005, net income was \$46,000, or \$0.00 per diluted share, compared to net income of \$528,000, or \$0.05 per diluted share, for the quarter ended March 31, 2004.

For the nine months ended March 31, 2005, net sales decreased by \$1,771,000, or 28%, to \$4,550,000 compared to \$6,321,000 for the same year ago period. For the nine months ended March 31, 2005, net income was \$157,000, or \$0.01 per diluted share, compared to \$1,478,000, or \$0.14 per diluted share, for the same nine-month period a year earlier.

Third Quarter Fiscal 2005 - Summary:

 The \$693,000 decrease in overall net sales was caused by a \$752,000 decline in net sales to software distributors that serve North American mass-merchants and other major retailers, driven by a \$651,000 decrease in net sales to Atari, the Company's primary software distributor within the United States. Atari's reduced purchasing requirements during the current quarter continued to reflect the reduction in overall retail shelf space being allotted for PC software games at the \$9.99 retail price point. This decrease in net sales to software distributors was partially offset by a \$94,000 increase in worldwide licensing revenues and a \$17,000 increase in Internet related sales.

The Company earned net income of \$46,000 during the quarter ended March 31, 2005 compared to the year ago quarter in which the Company earned \$528,000 in net income. This \$482,000 decrease in profitability for the quarter ended March 31, 2005 compared to the year ago quarter was primarily a result of a \$465,000 decline in gross profit, combined with a \$35,000 increase in operating expenses that was traceable to increased legal fees incurred in enforcing the Company's intellectual property rights.

The \$465,000 decline in gross profit resulted from a 32% decrease in net sales, combined with a 3.7% reduction in the gross profit margin that was caused by cost increases, as a percentage of net sales, of:

- o 4.1% in royalty expense resulting from the write-down of advance royalty payments for certain game titles that did not achieve expected consumer demand, combined with the impact from product mix changes; and
- o 1.7% in freight expense resulting from increased product shipments of smaller per order deliveries of box titles to retailers, combined with decreased product shipments to Atari that are more cost effective due to covering shorter distances and including larger unit requirements per delivery.

These cost increases, as a percentage of net sales, were partially offset by a

cost decrease, as a percentage of net sales, of 2.7% in product costs driven by an increase in worldwide licensing revenues, along with a decrease in inventory liquidation sales.

The following table represents the Company's net sales by distribution channel for the three and nine months ended March 31, 2005 and 2004, respectively:

Net Sales by Distribution Channel

(rounded to the nearest thousand)

<TABLE>
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Distribution Channel	Three Months Ended March 31,				Increase (Decrease)	% Change
	2005	%	2004	%		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Software Distributors	\$ 1,017,000	70%	\$ 1,769,000	82%	(\$ 752,000)	(43%)
Software Retailers	135,000	9%	166,000	8%	(31,000)	(19%)
Licensing	176,000	12%	82,000	4%	94,000	115%
Internet	96,000	7%	79,000	4%	17,000	22%
Inventory Liquidators	36,000	2%	57,000	2%	(21,000)	(37%)
Totals	\$ 1,460,000	100%	\$ 2,153,000	100%	(\$ 693,000)	(32%)

</TABLE>

<TABLE>
<CAPTION>

Distribution Channel	Nine Months Ended March 31,				Increase (Decrease)	% Change
	2005	%	2004	%		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Software Distributors	\$ 3,274,000	72%	\$ 5,169,000	82%	(\$ 1,895,000)	(37%)
Software Retailers	433,000	10%	532,000	8%	(99,000)	(19%)
Licensing	423,000	9%	292,000	5%	131,000	45%
Internet	242,000	5%	217,000	3%	25,000	12%
Inventory Liquidators	178,000	4%	111,000	2%	67,000	60%
Totals	\$ 4,550,000	100%	\$ 6,321,000	100%	(\$ 1,771,000)	(28%)

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Comments:

"The third quarter of fiscal 2005 reflected our continuing challenge to

compensate for the reduced amount of retail shelf space being allotted to \$9.99 PC game software that has occurred since the comparable year ago periods," said Jerry Klein, President and Chief Executive Officer. "Although we did not achieve the levels of profitability that we had during the comparable periods last year, we continue seeking innovative and profitable ways to expand our share of the North American retail market for affordably priced PC software games," Mr. Klein continued.

Mr. Klein further commented that, "our business strategy continues to concentrate on seeking and executing profitable cash generating opportunities at retail, as well as profitably increasing our online sales on the Internet and through potential licensing and OEM opportunities. During the fourth quarter of fiscal 2005 we will be shipping our first order to one of the larger dollar store chains. We see the dollar store market as a viable opportunity to increase our retail distribution in North America. We have an extensive back catalog of exceptional casual gaming content that can be affordably and profitably packaged for the dollar store market. We have also recently signed agreements with several widely-recognized and high traffic websites for the distribution of our products on their websites. Additionally, we have entered into agreements with two of the leaders in the direct sales marketplace. These are all licensing relationships that we expect to generate incremental revenues in future quarters. And perhaps most importantly, we have recently increased our retail distribution via a software distribution relationship for jewel case product with Microgistic, Inc. During the fourth quarter of 2005, we expect to begin realizing the benefit of this significant distribution presence.

"Our financial condition remains strong, as indicated by our solid balance sheet, positive cash flow and profitability, in addition to paying our first quarterly cash dividend on February 22, 2005 and declaring our second cash dividend payable May 25, 2005 to shareholders of record as of May 17, 2005. Lastly, at March 31, 2005 we had net working capital of \$3.8 million, \$2.3 million of which was cash, and no bank debt."

eGames, Inc.
Balance Sheets

	(Unaudited) As of March 31, ----- 2005 -----	(Audited) As of June 30, ----- 2004 -----
ASSETS		

Current assets:		
Cash and cash equivalents	\$ 2,275,038	\$ 1,742,224
Accounts receivable, net	795,834	1,533,859
Inventory, net	932,954	814,286
Prepaid and other expenses	315,968	440,131
	-----	-----
Total current assets	4,319,794	4,530,500
Furniture and equipment, net	59,398	74,859
Intangible assets	24,089	24,089
	-----	-----
Total assets	\$ 4,403,281	\$ 4,629,448
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 200,082	\$ 441,016
Accrued expenses	351,445	616,794
Total current liabilities	551,527	1,057,810

Stockholders' equity:

Common stock	9,179,827	9,179,827
Additional paid-in capital	1,615,778	1,329,164
Accumulated deficit	(6,442,434)	(6,435,936)
Treasury stock	(501,417)	(501,417)

Total stockholders' equity 3,851,754 3,571,638

Total liabilities and stockholders' equity \$ 4,403,281 \$ 4,629,448

eGames, Inc.
Statements of Operations
(Unaudited)

<TABLE>
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	Three Months Ended March 31,		Nine Months Ended March 31,	
	2005	2004	2005	2004
<S> Net sales	<C> \$ 1,459,623	<C> \$ 2,152,859	<C> \$ 4,550,082	<C> \$ 6,320,892
Cost of sales	646,116	874,230	2,056,508	2,585,045
Gross profit	813,507	1,278,629	2,493,574	3,735,847
Operating expenses:				
Product development	101,894	119,344	444,887	386,431
Selling, general and administrative	660,969	608,454	1,879,634	1,800,271
Total operating expenses	762,863	727,798	2,324,521	2,186,702
Operating income	50,644	550,831	169,053	1,549,145
Interest (income) expense, net	(2,007)	(2,430)	(4,834)	1,087

Income before income taxes	52,651	553,261	173,887	1,548,058
Provision for income taxes	6,483	25,137	16,784	70,335
	-----	-----	-----	-----
Net income	\$ 46,168	\$ 528,124	\$ 157,103	\$ 1,477,723
	=====	=====	=====	=====
Net income per common share:				
- Basic	\$ 0.00	\$ 0.05	\$ 0.02	\$ 0.15
	=====	=====	=====	=====
- Diluted	\$ 0.00	\$ 0.05	\$ 0.01	\$ 0.14
	=====	=====	=====	=====
Weighted average common shares outstanding - Basic	10,655,108	9,989,337	10,291,370	9,989,337
Dilutive effect of common share equivalents	375,041	1,380,022	700,962	886,948
	-----	-----	-----	-----
Weighted average common shares outstanding - Diluted	11,030,149	11,369,359	10,992,332	10,876,285
	=====	=====	=====	=====

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About eGames, Inc.

eGames, Inc., headquartered in Langhorne, PA, publishes and markets a diversified line of Family Friendly(TM), affordable consumer entertainment PC software games. The Company promotes the eGames(TM) brand in order to generate customer loyalty, encourage repeat purchases and differentiate eGames software products to retailers and consumers. eGames also publishes and markets RealAge(R) Games & Skills, a collection of PC software activities and games designed to help build and maintain mental sharpness. Additional information regarding eGames, Inc. and RealAge Games & Skills can be found at www.egames.com and www.realagegames.com. eGames -- Where the "e" is for Everybody!(R)

Forward-Looking Statement Safe Harbor:

This press release contains certain forward-looking statements, including without limitation, statements regarding: the Company's plan to continue seeking innovative and profitable ways to expand its share of the North American retail market for affordably priced PC software games; the Company's business strategy of concentrating on seeking and executing profitable cash generating opportunities at retail, and profitably increasing online sales, licensing and OEM revenues; the Company's expected shipment during the fourth fiscal quarter to one of the larger dollar store chains, and the expectation that the dollar store market is a viable opportunity to increase the Company's retail distribution in North America; the distribution of the Company's products on the websites of several widely-recognized and high traffic websites; the Company's expectation that several recent licensing relationships will generate incremental revenues in future quarters; the recent increase in retail distribution through Microgistic, Inc., and the expectation that during the fourth quarter of fiscal 2005 the Company will begin to realize the benefit of this new distribution relationship; the Company's expectation that it will pay a

second cash dividend on May 25, 2005 to shareholders of record as of May 17, 2005; and other statements that contain the words "believes" ,"expects", "may" "should" or "anticipates". The actual results achieved by the Company and the factors that could cause actual results to differ materially from those indicated by the forward-looking statements are in many ways beyond the Company's control. The Company cautions readers that the risks and uncertainties that may affect the Company's future results and performance include, but are not limited to, those discussed under the heading "Factors Affecting Future Performance" in the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2004 and Annual Report on Form 10-KSB for the fiscal year ended June 30, 2004, both filed with the Securities and Exchange Commission.

Contact:

eGames, Inc.

Jerry Klein, President & CEO

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Tom Murphy, Vice President & CFO

(215) 750-6606 (Ext. 113)