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RADICA GAMES LTD
Form 6-K
November 08, 2005

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of November, 2005

Commission File Number: 0-23696

RADICA GAMES LIMITED
(Translation of registrant's name into English)

Suite V, 6/F., 2-12 Au Pui Wan Street, Fo Tan, Hong Kong
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or 40-F

Form 20-F X Form 40-F
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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b) (1): _____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b) (7): _____

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No X
 ----- -----

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- _____

- Contents:
- 1. Press Release dated November 7, 2005
 - 2. Update respecting Risk Factors

This Report on Form 6-K shall be deemed to be incorporated by reference into the Registrant's Registration Statements on Form S-8 (No. 33-86960, No. 333-7000, No. 333-59737, 333-61260 and 333-122248) and on Form F-3 (No. 333-7526 and No. 333-79005).

RISK FACTORS UPDATE

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The following is intended to update our risk factors as disclosed in our 2004 Annual Report on Form 20-F and as previously updated in our Form 6-K reports furnished to the Securities and Exchange Commission.

As previously reported, in June 2005 AtGames Holdings Ltd. filed a complaint against Radica Games Limited and our subsidiary Radica (Macao Commercial Offshore) Limited in the California Superior Court, County of Los Angeles, alleging intentional interference with contract and unfair competition. Thereafter, the Radica parties removed the case to the Federal District Court, Central District of California. In October 2005, the Federal District Court remanded the case back to the California Superior Court. The Radica parties consider this suit to be without merit and intend to defend against it vigorously.

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

RADICA GAMES LIMITED

Date: November 8, 2005

/s/ Craig D. Storey

Craig D. Storey
Chief Accounting Officer

RADICA GAMES LIMITED REPORTS THIRD QUARTER RESULTS

FOR IMMEDIATE RELEASE
NOVEMBER 7, 2005

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DAVID C.W. HOWELL
PRESIDENT ASIA OPERATIONS
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(HONG KONG)
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HIGHLIGHTS:

- o Record quarterly sales of \$63.4 million compared to \$49.0 million for Q3 2004; growth of 30%.
- o Q3 diluted EPS grew by 65% to \$0.51 per share compared to \$0.31 per share for Q3 2004.

(HONG KONG) Radica Games Limited (NASDAQ: RADA) announced today its results for the third quarter ended September 30, 2005. The Company reported a net profit for the quarter of \$10.0 million or \$0.51 per diluted share compared to \$6.0 million or \$0.31 per diluted share in the third quarter of 2004. Net profit for the nine-month period ended September 30, 2005 was \$7.0 million or \$0.36 per diluted share compared to \$5.0 million or \$0.26 per diluted share for the same

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period in 2004, an increase of 38%. Excluding the non-cash charge of \$6.0 million for the impairment of the remaining goodwill associated with its video game accessories ("VGA") product line in Q2 2005, net profits would have been \$13.0 million or \$0.66 per share, an increase of 154%.

Sales for the third quarter of 2005 increased by 30% to \$63.4 million from \$49.0 million for the same period in 2004 due mainly to continued strength in the Electronic Games category led by growth from both the 20Q product line and traditional handheld electronic games. The Girl Tech product line also showed double digit growth during the quarter. Compared to sales for the same period in 2004, sales grew by 30% with North American sales increasing by 29%, European sales increasing by 35% and other international sales increasing by 47%. Sales for the year-to-date increased 46% to \$117.0 million as compared to \$79.9 million for the same period in 2004 for the same reasons.

Pat Feely, Radica's Chief Executive Officer, said "This was a strong quarter for Radica particularly when taken in the context of weak industry conditions. Additionally, it was the highest level of sales in any quarter ever at Radica, and our earnings were strong as well with an operating margin over 18%. It demonstrates that our strategy of focusing on electronic entertainment for casual gamers is the right strategy for today's tech-savvy consumers."

"We now enter into the most critical time of year immediately prior to the holiday season. As in every year the fourth quarter is largely in the hands of the consumer and how our retail customers respond to consumer demand. In past years this quarter has been hard to predict and the current retail environment has continued to be soft as well, so we urge caution in estimates for the end of the year. Even so, we believe we have the right kinds of products for the current marketplace and look forward to the upcoming season." said Feely

The following table shows the detailed revenue comparisons for the quarter:

| Product Lines | Three months ended September 30, | | Nine months ended September | |
|---------------------------|----------------------------------|-----------|-----------------------------|-----------|
| | 2005 | 2004 | 2005 | 2004 |
| ----- | | | | |
| (US Dollars in thousands) | | | | |
| Electronic Games | \$ 49,831 | \$ 34,220 | \$ 89,919 | \$ 51,111 |
| Youth Electronics | 6,859 | 6,447 | 12,409 | 11,111 |
| Other Electronic Toys | 1,632 | 1,657 | 2,130 | 2,111 |
| Video Game Accessories | 1,321 | 3,179 | 4,762 | 7,111 |
| Manufacturing Services | 3,794 | 3,469 | 7,822 | 7,111 |
| ----- | | | | |
| TOTAL | \$ 63,437 | \$ 48,972 | \$ 117,042 | \$ 79,911 |
| ===== | | | | |

Gross profit for the quarter increased by 55% to \$23.7 million, and gross margins increased by 610 basis points from 31.2% to 37.3%. Gross profit for the nine-month period ended September 30, 2005 increased by 58% to \$41.9 million and gross margins for the same period increased by 260 basis points to 35.8%. The increases in gross margins during both periods related primarily to a sales mix shift to higher margin products. As a result, lower margin product lines such as Manufacturing Service and Play TV Legends games accounted for a smaller portion of sales. The increase in our gross margin percentage was also impacted by lower

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air freight charges and outsourcing costs than for the comparable period last year when the Company experienced a late surge in demand which forced it to incur higher costs.

Operating expenses increased to \$12.0 million for the quarter from \$8.6 million in Q3 2004. The increase was due to sales related and other variable costs, together with increases in research and development costs and depreciation. For the nine months ended September 30, 2005, operating expenses increased by \$12.2 million from the comparative period in 2004 due to the previously mentioned impairment charge of \$6.0 million in Q2 as well as variable costs.

At September 30, 2005 the Company had \$35.7 million of cash and investment securities, and net assets of \$96.1 million as compared to \$40.1 million and \$91.1 million, respectively, at December 31, 2004 and \$36.0 million and \$92.2 million respectively as of September 30, 2004. There was no debt at September 30, 2005, December 31, 2004 and September 30, 2004. Inventories increased to \$31.4 million from \$26.8 million at December 31, 2004 and from \$28.9 million at September 30, 2004, reflecting the growing demand for our product lines, as well as normal seasonality. Receivables increased to \$35.6 million from \$18.4 million at December 31, 2004 and from \$26.0 million at September 30, 2004 reflecting the increased sales and normal seasonality.

On October 6, 2005, the Company declared a fourth quarter dividend of \$0.045 per share, which was paid on October 28, 2005.

The foregoing discussion contains forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. Forward-looking statements include statements about efforts to attract or prospects for additional or increased business, new product introductions and other statements of a non-historical nature. Actual results may differ from projected results due to various Risk Factors, including Risks of Manufacturing in China, Dependence on Product Appeal and New Product Introductions, and Dependence on Major Customers, as set forth in the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2004, as filed with the Securities and Exchange Commission. See "Item 3. Key Information -- Risk Factors" in such report on Form 20-F.

Radica Games Limited (Radica) is a Bermuda company headquartered in Hong Kong (NASDAQ: RADA). Radica is a leading developer, manufacturer and distributor of a diverse line of electronic entertainment products including electronic games, youth electronics, video game accessories and high-tech toys. Radica has subsidiaries in the U.S.A., Canada, the U.K. and Macau, and a factory in Dongguan, Southern China. More information about Radica can be found on the Internet at www.radicagames.com.

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| (US dollars in thousands, except per share data) | Three months ended September 30, | | Nine months ended September 30, 2005 |
|--|----------------------------------|-------------|--|
| | 2005 | 2004 | |
| | (unaudited) | (unaudited) | |
| Revenues: | | | |
| Net sales | \$ 63,437 | \$ 48,972 | \$ |
| Cost of goods sold (exclusive of items shown separately below) | (39,750) | (33,703) | |
| Gross profit | 23,687 | 15,269 | |
| Operating expenses: | | | |
| Selling, general and administrative expenses | (10,192) | (7,271) | |
| Research and development | (1,274) | (926) | |
| Depreciation and amortization | (559) | (450) | |
| Impairment of goodwill | -- | -- | |
| Total operating expenses | (12,025) | (8,647) | |
| Operating income | 11,662 | 6,622 | |
| Net interest and other income | 288 | 718 | |
| Foreign currency (loss) gain, net | (216) | 2 | |
| Profit before income taxes | 11,734 | 7,342 | |
| Provision for income tax | (1,747) | (1,352) | |
| Net profit | \$ 9,987 | \$ 5,990 | \$ |
| Net profit per share: | | | |
| Basic | \$ 0.52 | \$ 0.32 | \$ |
| Diluted | \$ 0.51 | \$ 0.31 | \$ |
| Weighted average number of common and common equivalent shares: | | | |
| Basic | 19,036,387 | 18,687,802 | 1 |
| Diluted | 19,699,815 | 19,519,694 | 1 |
| Cash dividends declared per share (4.5 cents declared and paid for each quarter ended March 31, June 30, and September 30, 2005; 4 cents per quarter in 2004) | \$ 0.045 | \$ 0.040 | \$ |

RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEETS

(US dollars in thousands, except share data) September 30, December

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| | ----- 2005 ----- (unaudited) | ----- 2004 ----- |
|--|---------------------------------------|------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 25,858 | \$ 27,614 |
| Investment securities | 9,874 | 12,456 |
| Accounts receivable, net of allowances for doubtful accounts of \$162 (\$148 as at December 31, 2004 and \$165 as at September 30, 2004) | 35,602 | 18,359 |
| Inventories | 31,385 | 26,818 |
| Prepaid expenses and other current assets | 3,634 | 3,374 |
| Income taxes receivable | 23 | 168 |
| Deferred income taxes | 1,837 | 1,850 |
| | ----- | ----- |
| Total current assets | 108,213 | 90,639 |
| Property, plant and equipment, net | 14,831 | 11,480 |
| Goodwill | -- | 6,015 |
| Other assets | 838 | 854 |
| Deferred income taxes, noncurrent | 1,058 | 953 |
| | ----- | ----- |
| Total assets | \$ 124,940 | \$ 109,941 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 16,742 | \$ 11,840 |
| Accrued payroll and employee benefits | 3,102 | 1,486 |
| Accrued expenses | 7,283 | 5,251 |
| Income taxes payable | 1,740 | 287 |
| | ----- | ----- |
| Total current liabilities | 28,867 | 18,864 |
| | ----- | ----- |
| Total liabilities | 28,867 | 18,864 |
| | ----- | ----- |
| Shareholders' equity: | | |
| Common stock | | |
| par value \$0.01 each, 100,000,000 shares authorized, 19,060,857 shares outstanding (18,738,112 as at December 31, 2004 and 18,722,864 as at September 30, 2004) | 191 | 187 |
| Additional paid-in capital | 6,027 | 4,610 |
| Retained earnings | 90,396 | 85,909 |
| Deferred compensation | (357) | -- |
| Accumulated other comprehensive (loss) income | (184) | 371 |
| | ----- | ----- |
| Total shareholders' equity | 96,073 | 91,077 |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$ 124,940 | \$ 109,941 |
| | ===== | ===== |